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The Politics of Canadian Energy  
Reviews of Recent Canadian Publications

External Affairs Dept.  
Esso Resources Canada Ltd.  
1983



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Kruk Calgary Esso Resources Canada  
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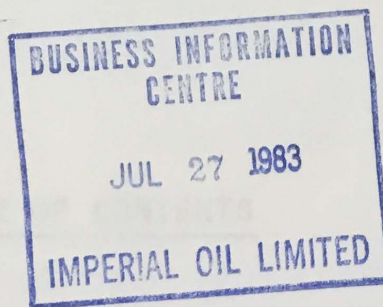
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THE POLITICS OF CANADIAN ENERGY:  
REVIEWS OF RECENT CANADIAN PUBLICATIONS

Gerry Kruk

EXTERNAL AFFAIRS DEPARTMENT  
ESSO RESOURCES CANADA LTD.  
1983

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## THE POLITICS OF CANADIAN ENERGY

### BOOK REVIEWS ON RECENT CANADIAN PUBLICATIONS

External Affairs Department  
Esso Resources Canada Limited

#### TABLE OF CONTENTS

1. a. Oil and Gas: Ottawa, the Provinces and the Petroleum Industry by James Laxer  
b. Canada's Oil and the American Empire by Edward Shaffer  
c. Controlling Interest: The Canadian Gas and Oil Stakes by David Crane
2. a. Marketing Canada's Energy: A Strategy for Security in Oil and Gas by I.A. McDougall
3. a. The Sorcerer's Apprentices by Peter Foster  
b. Fuels and the National Policy by John N. McDougall
4. a. Government in Business by Marsha Gordon  
b. Where Business Fails by James Gillies
5. a. Megatrends: The Ten New Directions Transforming Our Lives by John Naisbett



## THE POLITICS OF CANADIAN ENERGY:

### BOOK REVIEWS ON RECENT CANADIAN PUBLICATIONS

External Affairs Department  
Esso Resources Canada Limited

#### Introductory Note to Readers

This collection of reports comprise an effort by the External Affairs Department of Esso Resources Canada Limited to assist the senior management of Imperial Oil Limited in maintaining awareness of the critical external issues and the general government environment affecting Canadian oil and gas policy and our corporation specifically. The books summarized (and, to a lesser extent, critiqued) here generally take a subjective advocacy position in relation to not only the National Energy Program of 1980 but, as well, vis a vis the question of foreign ownership and the other energy issues which contributed to the original creation of PetroCanada and the NEP.

It is useful for managers and other employees of Imperial Oil to be aware of these publications because they tend to substantially influence the manner in which, firstly, academic, university and other "thought leader" audiences define the energy issues of the day, and often ultimately as well, how mass media, special interest groups and even some government representatives perceive and act upon critical energy issues.

The book reviews in this volume are categorized in the following manner:

- (1) The books by James Laxer, David Crane and Ed Shaffer all tend to adopt a very critical perspective on foreign ownership in the Canadian oil and gas industry, viewing multinational corporations such as Imperial Oil as subservient to the global interests of Exxon, and/or the United States government rather than to the Canadian national interest. From this perspective, these authors proceed to strongly defend and promote the National Energy Program and to allege that any abandonment of that policy is largely the result of the political influence in Canada of the foreign-owned oil companies and the American government.
- (2) The book by I.A. McDougall is based on premises similar to those held by Laxer, Crane and Shaffer, but McDougall goes on to recommend new government intervention initiatives, beyond those already contained in the NEP, to control the pricing and marketing of oil and gas in Canada and even the investment plans of the private sector.
- (3) Peter Foster's book The Sorcerer's Apprentices is, in contrast, a very hard hitting critique of government interventionism in the economy, in general, but primarily the NEP and the type of nationalistic and interventionist thinking that contributed to it. John N. McDougall's book, although written in a more detached fashion, also challenges one of the fundamental assumptions of NEP apologists, namely the idea that corporate foreign ownership rather



than natural and pragmatic economic considerations (common to all oil companies, whether private or public, whether Canadian or foreign-owned) exert the primary influence on the kinds of energy policies traditionally pursued by Canada (i.e. exports).

- (4) The books by Marsha Gordon and James Gillies, while somewhat different in focus than the ones identified above, nevertheless contribute to a better understanding of the general energy issue. Gordon's book explains and evaluates the pronounced tendency of Canadian governments to manage economic and energy problems in a particular way -- through the creation of Crown Corporations such as PetroCanada. Gillies covers some of the same analytical ground as Gordon; however, his primary purpose is to describe the institutional processes and actual personnel through which major energy and economic policies are made in the government of Canada. Gillies also speculates on the implications of this for how the business community must relate to the federal government if they are to effectively influence policy.
- (5) The book, Megatrends, by American author John Naisbitt, is also included because it provides a thought-provoking analysis of the major economic, social and technological trends shaping the public agendas of all major industrialized nations in the western world. This analysis therefore is helpful in speculating about the future context of energy policy making in Canada.

All of the books reviewed here are or will soon be in both the Imperial Oil and Esso Resources library information centres. If readers have any questions or comments on these book reviews however, I would be pleased to discuss them.

*G.E. Kruk*

G.E. Kruk  
External Affairs Department  
Esso Resources Canada Limited  
Calgary, Alberta



SECTION 1



# MEMORANDUM

EXTERNAL AFFAIRS DEPARTMENT

July 13, 1983

TO:	R.B. Peterson	I.H. Ashford	V.C. Larson	R.F. Routledge
	D.D. Lougheed	M.C. Arnett	J.E. Lee	M.P. Schiel
	G.E. Courtnage	J.P. Batteke	G.G. Mainland	L.C. Sevic
	G.L. Haight	W.D. Evans	R.H. Millar	J.C. Underhill
	J.E. Burns	L.J. Fisher	K.E. O'Connor	R.G. Wilson
	R.A. Wilkinson	A.F. Gomm	J.W. Park	
	G.J. Willmon	R.A. Brenneman	W.R. Patton	
		G.A. Howse	J.W. Pollock	
		G.W. Kalyniuk	H.G. Rainbird	

FROM: G.E. Kruk

Attached, for your reference, are summaries of three more recently published books on the Canadian petroleum industry:

- (1) James Laxer, Oil and Gas: Ottawa, The Provinces and the Petroleum Industry (1983)
- (2) Edward Shaffer, Canada's Oil and The American Empire (1983)
- \* (3) John N. McDougall, Fuels and the National Policy (1982).

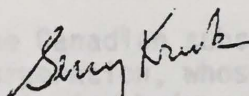
The Laxer and Shaffer volumes reiterate and extend the popular conspiracy theory that seeks to explain (a) the motives and behavior of foreign-owned oil companies in Canada in terms of subservience to the global interests of their foreign parent corporation, and (b) Canadian energy policy generally as the alleged product of the immense political power of the oil industry lobby and U.S. Government interference. The Laxer and Shaffer volumes are already a standard reference source for university audiences; as well, Laxer's new book is likely to reinstate Professor James Laxer (currently Parliamentary Research Director for the NDP) as the favorite energy "expert" and consultant for the mass media, a position he previously held in the mid 1970's. Both of these books specifically highlight Imperial Oil, citing numerous alleged examples of the company's subservience to foreign interests.

\*Please Note: The summary of McDougall's book is in Section 3.



The McDougall book, like Peter Foster's The Sorcerer's Apprentices (1982), is a welcomed exception to the typical academic analysis of the Canadian oil industry. McDougall's more impartial analysis leads him to reject the conspiracy thesis that blames the continentalist orientation of Canadian energy policy on foreign ownership. Instead, McDougall attributes continentalism to natural geographical and ultimately economic imperatives - U.S. and Canadian energy trade simply makes good economic sense and is pragmatic policy. He points out that Canadian as much as foreign-owned oil production companies promote such policies (even PetroCanada) and that public ownership is therefore a no more effective policy tool in this respect than regulation.

In short, as the future of the NEP and PetroCanada become more publicly discussed in the pre-election period ahead, company spokesmen who are debating the energy issues raised by authors such as Laxer and Shaffer\* can refer to counter-vailing assessments provided by John McDougall as well as Peter Foster to help support their rebuttal.

  
G.E. Kruk

cc: G.H. Thomson  
J.E. Akitt  
R.E. Landry  
P.F. Bartha  
J.E. Lang

- \* (The Laxer and Shaffer books are essentially in the same thematic category as David Crane's Controlling Interest and Ian MacDougall's Marketing Canada's Energy which were previously summarized.)



OIL AND GAS: OTTAWA, THE PROVINCES AND THE PETROLEUM INDUSTRY  
(Lorimer & Company, Toronto 1983)  
by James Laxer

Introduction

The basic theme of the book is the traditional one that the major foreign-owned oil companies in Canada are, as subsidiaries, local agents of the global industry. In this sense, the policies and objectives of a corporation such as Imperial Oil are merely "local adaptations" of the global strategies of their parent corporation. Sometimes this means IOL uses optimistic reserve forecasts to lobby for oil exports and at other times it presses the Canadian government for price increases through warnings of oil shortages. But at all times IOL is serving Exxon and American interests.

This theme is the same as in Laxer's earlier books on the energy industry. However, in this volume, Laxer extends the analysis to cover the years 1975-82. His principal new thesis is that Ottawa's retreat from the NEP in 1982 reflects the political power in Canada of foreign "big oil" and the Province of Alberta as well as their allies in the business community and mass media.

The major arguments contained in Laxer's book are identified below.

I. The Nature of the Foreign-owned Oil Industry in Canada

1. Laxer essentially characterizes the Canadian subsidiaries of foreign oil majors as puppets of the parent corporation, whose policies are merely local components of world wide strategies being administered by an all powerful corporate head office in the US. There is no suggestion that IOL's actions and goals are anything other than a result of its being controlled by Exxon. For example, Laxer states, "As the subsidiary of an American oil company, it was natural for Imperial to lobby the Canadian government for higher exports of oil to the US". (p. 22) Also, Laxer says of W.O. Twaits, IOL's CEO, that "naturally he was also a leading opponent of economic nationalism in Canada". The only comment Laxer makes on the question of IOL's autonomy from Exxon is to quote Bob Blair's evocative rebuttal: "That's bullshit. There is no such thing as a multinational. If they are anything, they are national. Imperial is an American company". (p. 104)
2. Laxer describes Exxon as not only a worldwide business "empire" but also "a political entity with vast power to influence the course of American foreign policy." He says Exxon is still "effectively controlled" by "the Rockefeller interests" which have a large influence on American foreign policy. Exxon's function is not to provide capital for less developed countries, but by making profits abroad, to provide additional capital for investment in the US.
3. Among the political resources of big oil are the ability to:
  - (a) pressure Canadian governments through "capital strikes" (i.e. refusing to invest when governments increase taxes, etc.)
  - (b) influence public opinion through expensive advocacy advertising



(c) self-servingly manipulate oil reserve forecasts.

4. In regard to this last strategy, Laxer charges that IOL's statements in 1974-75, after the OPEC price increases, that Canada actually was in danger of oil shortages, "made plain just how little real concern the major oil companies had had about Canada's actual supply prospects and future needs".
5. Regarding the "capital strike" tactic, Laxer specifically asserts that "throughout 1981 the petroleum giants slashed their Canadian budgets to signal their negative response to the NEP". This strategy "undermined" the NEP, forcing Ottawa to "placate the powerful industry" with its NEP Update of 1982.

## II. The Oil Industry - Government Relationship

1. Prior to 1973, the Canadian government generally played the role of industry "cheerleader" or "booster", helping the oil companies promote their vision of monstrous oil reserves and large scale exports. The government did not act like "serious regulators protecting the national interest". (p. 24, 5)
2. The general public and government lost their trust and confidence in the large foreign-owned oil majors after the companies "cynically" flip-flopped on their reserve forecasts in 1974-5 (after the OPEC price revolution). In Laxer's words: "Canadians witnessed what appeared to them as the naked exercise of power, accompanied by no clear concern for the national interest". (p. 49)
3. This alleged display of corporate power was viewed by the public against the backdrop of a growing wave of economic nationalism in Canada and a world wide movement toward state-owned oil companies. The ultimate Canadian reaction was to create PetroCanada which "gave Ottawa the ability to intervene where once the oil companies had ruled". (p. 3) Laxer also claims that it has always been the federal government's intention that PetroCanada be a direct agent of government policy. Laxer concludes his commentary on PetroCanada with the assertion that by the early 1980's, "the crown company had become a crucial national institution ... a symbol of national hope and effectiveness in a bleak economic period". (p. 190)
4. The sudden transformation of Canada from an oil exporting to oil importing nation caused Canada's entire economic strategy to become unhinged. (Laxer then sketches out what he sees as the horrendous consequences: "The balance of payments deficit, made much more serious because of the vast oil trade miscalculation, led to the devaluation of the Canadian dollar, to the need to keep Canadian interest rates in the range of American interest rates (to prevent further declines in the dollar), and to the inability of Canadian governments to shelter Canadians from the full effects of American recessions.") (p. 45, 6) In effect, Laxer appears to be indirectly suggesting that oil companies like IOL are largely responsible for the current Canadian recession.



### III. The National Energy Program

1. The basis of the NEP was the Liberal government's perception that with massive oil revenues accruing to Alberta, the very balance of power within Canadian federalism was at stake. Petroleum policy was seen, therefore, as a tool for re-establishing both federal fiscal solvency and federal direction of economic strategy. (p. 72)
2. Laxer romanticizes the Canadianization aspect of the NEP as  
"the most ambitious effort ever undertaken by Ottawa to reverse the foreign control of a major industry in favour of Canadian control. For the government of Canada to challenge foreign control of the nation's petroleum industry was to challenge foreign control at its very centre, in the most capital-intensive and fastest-growing sector of the national economy ... The NEP has become ... a symbol of hope for economic nationalists and a symbol of loathing for continentalists". (p. 74)  
  
(Note Laxer's suggestion that only "continentalists" would find reason to oppose the NEP, not anybody with the nation's best long-term interests at heart.)
3. Laxer contends that the fate of the NEP reveals a great deal about the nature of political power in Canada. In his view the NEP "revealed how far Canadians had travelled in their determination to take greater control of their national economy". But even more significantly, the NEP  
"also revealed just how powerful were the forces of continentalism and economic decentralization. Under attack from the oil industry, provincial governments, the US government and business opinion-makers, the federal government faltered. It did not abandon the program, but it allowed it to be isolated and then eroded". (p. 191)
4. By their opposition, the oil multinationals and the US government forced Ottawa to abandon its plans to extend the NEP concept to other sectors of the economy. In this way, they forced Ottawa to not only water down the NEP but to abandon the goal of a broad "industrial strategy" centred on the manufacturing sector of the economy. Once Ottawa had given up on an industrial strategy, it no longer made any sense to resist Alberta's advocacy of higher oil prices. Although the manufacturing sector would remain weak, at least the Canadian government would benefit from the tax revenues and megaprojects that would accompany high oil prices. However, the collapse of world oil prices undermined even this watered down policy. By early 1983, Ottawa confessed it would obtain \$36 billion less over the 1981-86 period than it had originally forecast. Not only would there be no industrial strategy, there wouldn't even be any energy megaprojects.
5. The manner in which the federal government was forced by political pressure (and balance of payments problems) to slow down its Canadianization program demonstrates, in Laxer's view, that



"the NEP was flawed conceptually right from the start. It was based on the premise that huge sums of money could be transferred from foreign-owned to Canadian-owned petroleum companies (simply) through changes in the tax system and the initiation of the PIP grants. The problem was that the foreign-owned majors controlled the bulk of oil and gas production in Canada and the best and largest amounts of oil-leased land. There was simply not a large enough Canadian-owned petroleum sector to act as an effective recipient for the transfer of capital. In the past, the majors had been successful in using the strike weapon when their interests were threatened. There was nothing to stop them from using it again." (p. 85)

The strategy which Ottawa did not have the resolve to utilize, but should have, in Laxer's view, was to have PetroCanada acquire "the domestic assets of one or more of the giant foreign-owned companies" (i.e. Imperial, Gulf or Shell) and thereby achieve a "head-on reduction of the power of the majors".

The bottom line, claims Laxer, was that the NEP was enough of a challenge to the major oil companies and the US government to cause them to react in a determined fashion but the policy "was not decisive enough to give the Canadian government the means to gain control of the industry". (p. 85) The NEP thus fell ineffectually between two stools.

6. In view of what he sees as this policy "disaster", Laxer sums up the current situation in stark terms:

"A new chapter in the economic debate was beginning. As with the debates of the previous decade and a half, the fundamental choices remained as they had been. Canada could specialize as a resource producer relying on foreign capital and foreign markets, or it could pursue the goal of greater economic self reliance." (p. 192)

In short, Laxer is making a clarion call to Canadians. He is claiming in effect that the NEP experience illustrates not the impracticality of that nationalist policy approach but the immense political power of the vested interests who undermined it and the weaknesses of the federal Liberal government which abandoned it. The call is for a national industrial policy fashioned out of the same principles of the NEP, a "broader strategy for the achievement of a more self-reliant, productive, technologically sovereign Canadian economy". (p. 83)

G.E. Kruk  
July, 1983



# MEMORANDUM

EXTERNAL AFFAIRS DEPARTMENT

July 13, 1983

TO:	R.B. Peterson	I.H. Ashford	V.C. Larson	R.F. Routledge
	D.D. Loughheed	M.C. Arnett	J.E. Lee	M.P. Schiel
	G.E. Courtnage	J.P. Batteke	G.G. Mainland	L.C. Sevick
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	G.J. Willmon	R.A. Brenneman	W.R. Patton	
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FROM: G.E. Kruk

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The Laxer and Shaffer volumes reiterate and extend the popular conspiracy theory that seeks to explain (a) the motives and behavior of foreign-owned oil companies in Canada in terms of subservience to the global interests of their foreign parent corporation, and (b) Canadian energy policy generally as the alleged product of the immense political power of the oil industry lobby and U.S. Government interference. The Laxer and Shaffer volumes are already a standard reference source for university audiences; as well, Laxer's new book is likely to reinstate Professor James Laxer (currently Parliamentary Research Director for the NDP) as the favorite energy "expert" and consultant for the mass media, a position he previously held in the mid 1970's. Both of these books specifically highlight Imperial Oil, citing numerous alleged examples of the company's subservience to foreign interests.

\*Please Note: The summary of McDougall's book is in Section 3.



The McDougall book, like Peter Foster's The Sorcerer's Apprentices (1982), is a welcomed exception to the typical academic analysis of the Canadian oil industry. McDougall's more impartial analysis leads him to reject the conspiracy thesis that blames the continentalist orientation of Canadian energy policy on foreign ownership. Instead, McDougall attributes continentalism to natural geographical and ultimately economic imperatives - U.S. and Canadian energy trade simply makes good economic sense and is pragmatic policy. He points out that Canadian as much as foreign-owned oil production companies promote such policies (even PetroCanada) and that public ownership is therefore a no more effective policy tool in this respect than regulation.

In short, as the future of the NEP and PetroCanada become more publicly discussed in the pre-election period ahead, company spokesmen who are debating the energy issues raised by authors such as Laxer and Shaffer\* can refer to counter-vailing assessments provided by John McDougall as well as Peter Foster to help support their rebuttal.

*G.E. Kruk*

G.E. Kruk

cc: G.H. Thomson  
J.E. Akitt  
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\* (The Laxer and Shaffer books are essentially in the same thematic category as David Crane's Controlling Interest and Ian MacDougall's Marketing Canada's Energy which were previously summarized.)

## 8. AMERICAN INFLUENCE ON THE DEVELOPMENT OF CANADIAN OIL INDUSTRY

1. Early influence of Standard Oil (New Jersey). The U.S. obtained an early foothold in the Canadian oil industry through Rockefeller's Standard Oil which took control of Canada's largest oil company, Imperial Oil, in 1898 and through it dominated the Canadian market. (p. 61)
2. Suez Canal. This is an early example of the way the U.S. "let's as much as possible" to obtain Canada's oil for its own purposes and then "had no hesitation in leaving Canada high and dry" (p. 143) when the need no longer existed.



## CANADA'S OIL AND THE AMERICAN EMPIRE

by  
ED SHAFFER  
(Hurtig, 1983)

### A. INTRODUCTION

In general, Professor Shaffer's book focuses on the development of the American oil industry; his principal theme is the industry's power and influence on American foreign policy. For example, he quotes Henry Kissinger to the effect that "You could never implement energy policy as a purely economic matter. It has been a foreign policy matter from the beginning." Shaffer traces the rise of the "American Empire" which was based to a large extent on its ability to control world oil supplies and markets through the large multinational oil companies based in the U.S. Shaffer's major premise is that there is a mutually supportive relationship between the U.S. State Department and the U.S.-based multinational oil companies such that the companies were agents of U.S. foreign policy and the oil companies used the assistance of the State Department to extend their power and influence abroad. In this scenario Canada is treated by the U.S. State Department in the same manipulative, exploitive and imperialistic manner as other developing states such as Mexico, Venezuela and Arab nations. (The book's cover graphically illustrates the U.S. eagle clawing into the back of the Canadian beaver.)

The "Empire" reached its zenith in the post-World War II era. However, in recent years, the advent of OPEC and the ensuing series of "energy crises" as well as the trend wherein many of the smaller producing nations such as Canada began to assert their own national energy policies, have combined to undermine the American dominance of the world oil industry.

Shaffer generally asserts that Canadian oil policy was dominated by and geared towards serving American rather than Canadian interests. This domination of foreign interests was sustained, he claims, until the Arab oil embargo of the early seventies which forced Canadians to reassess their energy policy culminating in the creation of PetroCanada and the National Energy Policy.

The following are the highlights of the Canadian sections of the book with an emphasis on Imperial Oil's role as an alleged instrument of American State Department policy.

### B. AMERICAN INFLUENCE ON THE DEVELOPMENT OF CANADIAN OIL INDUSTRY

- I. Early influence of Standard Oil (New Jersey). The U.S. obtained an early foothold in the Canadian oil industry through Rockefeller's Standard Oil which took control of Canada's largest oil company, Imperial Oil, in 1898 and through it dominated the Canadian market. (p. 61)
- II. Norman Wells/Canol. This is an early example of the way the U.S. "left no stone unturned" to obtain Canada's oil for its own purposes and then "had no hesitation in leaving Canada high and dry" (p. 148) when the need no longer existed.



III. Continental Oil Policy. (p. 129, 142-143, 213) The U.S. energy policy has long centered on the premise that western hemisphere markets should be supplied by western hemisphere sources. By the early seventies author James Laxer warned that "American policy makers intend to achieve self-sufficiency in the U.S. ... through the inclusion of Canadian resources in the domestic supplies of the U.S." (p. 213)

- o Interprovincial Pipeline. This American preoccupation with secure western energy sources was, according to Shaffer, working behind the scenes during the debate over the routing of IPL in the early fifties and the addition of the "Chicago Loop" in the sixties. Shaffer emphasizes Imperial Oil's role:

"It (IPL) subjected domestic Canadian oil to U.S. control ... Given the close relationship between Imperial's parent, Standard Oil (New Jersey) and the U.S. State Department, one wonders whether these political considerations were not also an important factor in Imperial's insistence on this particular route." (p. 142)

- o Transmountain Pipeline. U.S. foreign policy and its continental approach to energy supplies also played a role in the building of the Transmountain Pipeline during the Korean War which had the sole purpose of supplying Alberta crude for the use of U.S. armed forces in the Puget Sound area. Once again Imperial Oil played a large role in the construction and ownership of the pipeline and Shaffer notes that "with the construction of the pipeline, Canadian oil thus became part of the U.S.'s strategic oil reserves. Another link was forged in the creation of a continental energy policy." (p. 143)

#### C. U.S. AND THE NATIONAL OIL POLICY (NOP)

- I. National Oil Policy. The NOP was formulated in 1961 and Shaffer sees evidence that its thrust was heavily influenced by the large multinational oil companies and the U.S. government. The "cartel-like division of the market" and the abandonment of the IPL extension to Montreal (which reserved the eastern market for offshore crude while leaving the rest of the country to be supplied by the more expensive Alberta crude) was to the advantage of the multinationals: "They did not want that (i.e. Alberta) oil in Montreal for the simple reason that Venezuelan crude was more profitable to the parents of the Canadian subsidiaries." (p. 157)

The Ottawa Valley line which the NOP used as its dividing line corresponded to the point at which Imperial Oil had determined that the transportation costs equalized the difference in price between imported and Alberta crude. "By placing it (i.e. demarcation line) at that point, the NOP enabled Jersey (i.e. SONJ) to perpetuate that division of the Canadian market that corresponded to Jersey's interests." (p. 160)

- II. Reserve Estimates. In the late sixties and early seventies, Imperial Oil reported confidently that Canada had enough energy reserves to last "several hundred years"; however, by 1974 the NEB was reporting that



Canadian supplies would be "inadequate" to serve traditional Canadian markets after 1982. Shaffer states that: "It does seem strange that the leading Canadian oil company ... could make such an enormous error in its reserve figures. The discrepancy raises questions either about the competence of Imperial or about the validity of reserve figures in general." (p. 222) According to Shaffer, SONJ's own forecasts in the late sixties showed a marked decline in U.S. production starting in the seventies and it looked to Canadian oil as its most profitable alternative source for domestic markets. "To implement this strategy, Imperial Oil embarked on a campaign to convince the Canadian public that exports of oil and gas were in their interests." (p. 218)

- III. NOP Made Canada Import-Dependent. The National Oil Policy, combined with the policies of the U.S.-oriented multinationals, had the effect of making Canada "simultaneously dependent on exports for its markets and on imports for its supplies. It (i.e. NOP) destroyed the possibility of allowing Canada to develop an independent oil policy consistent with its own national interests." (p. 225)

Shaffer claims the marketing arrangement of the NOP led Canada into (a) a two-tier pricing system (the ramifications of which are felt today as Canada still struggles to find an acceptable pricing mechanism) (b) delayed the extension of the pipeline into Montreal (thus perpetuating the reliance of the East Coast on foreign oil). "... Because of the need to import a portion of its oil ... Canada is the only major exporter of oil that has been forced to raise its domestic prices to the world level. They are rising because it has become too costly to subsidize imports - imports that would never have been needed had Canada adopted a truly national oil policy when it had the opportunity to do so." (p. 225)

#### D. THE NATIONAL ENERGY POLICY

- I. Canada Moves Towards Economic Nationalism: Professor Shaffer sees the NEP as the "culmination of a trend that has been growing in Canada for the past two decades, the trend towards economic nationalism. It reflects, in part, the desire of a portion of the Canadian bourgeoisie to use Canada's resources for their own development rather than the furtherance of U.S. energy policy." (p. 246)
- II. FIRA: By Professor Shaffer's calculations the foreign-owned companies who dominated Canada's energy and minerals industry "alone had the potential of buying out the entire Canadian economy." (p. 228) It was to prevent this from occurring that FIRA was formed and "the oil companies have regarded it as an obstacle to their freedom to invest" ever since.
- III. Petro-Canada. The formation of Petro-Can was attacked with "greater vehemence" than FIRA by the oil companies because it had the potential of playing an active role in the energy economy and it represented direct federal government intervention in oil and gas". (p. 229)
- IV. Canadianization: Petro-Can became the chief vehicle through which the Canadian government sought to Canadianize the oil industry. According to



Shaffer the Canadianization portion of the NEP "posed a direct threat to U.S. control of Canadian oil." (p. 237)

- V. U.S. Reaction: The major U.S. oil companies with interests in Canada regarded the NEP as "Canadian buccaneering" and forced the U.S. Congress to introduce legislation to protect their interests. Also, the U.S. State Department threatened retaliation by pointing out that there are many examples of significant Canadian investment in the U.S. which could be taxed, regulated or legally constrained." (p. 246)

#### E. CONCLUSION

Shaffer points out that Canada is not the only nation chafing against the U.S. harness. "Norway's Statoil and Mexico's Pemex also stand as barriers to U.S. penetration of their countries. U.S. policy-makers do not want these countries to develop their own national energy policies ... The other non-OPEC oil countries are also attempting to prevent the U.S. from controlling their oil. The U.S. likes their independent attitude no more than it did Canada's." (p. 277)

O. Blakeney

June 1983

0825E

This overview was prepared because Crane's book is certain to join Jim Laxer's publications of the mid-1970s and the Bertrand Report as the "standard source for public debate on oil policy" (in the words of Canadian Forum magazine). It will be required reading for most university students taking courses on public policy as well as a source book for practicing journalists. It is, therefore, important that Imperial Oil spokesmen be generally aware of its contents before venturing forth to "debate the issues". This is especially the case as the control which Exxon is said to exert over Imperial is presented by Crane as a prominent example of how branch plants are unreliable instruments of Canadian national policy.

In the near future, I will follow up this material with a companion piece, namely a similar overview of Peter Foster's recently published The Stranger's Aggravations. This is a hard hitting and effective critique of both the NEP and the prevailing biases against multinationals that contributed to the energy policy. Foster's book is therefore, a timely and healthy antidote to the dominating influence which pre-NEP publications, such as Crane's book, have so far enjoyed in public policy and media discussions, in Central Canada particularly.

A. J. Landry  
A. J. Thomson  
A. J. Brimmer

D. A. Coghill  
W. J. Mann  
R. P. Bartha

D. B. Hay  
W. A. Sando  
D. H. MacMillan

Corporate Managers  
IDL External Affairs  
Advisors



# MEMORANDUM

EXTERNAL AFFAIRS DEPARTMENT

December 8, 1982

## TO:

R.B. Peterson	I.H. Ashford	G.A. Howse	J.W. Pollock
D.D. Loughheed	M.C. Arnett	G.W. Kalyniuk	H.G. Rainbird
G.E. Courtnage	D.D. Baldwin	V.C. Larson	R.F. Routledge
G.L. Haight	E. Bennett	J.E. Lee	M.P. Schiel
J.E. Burns	G.E. Bezaire	G.G. Mainland	L.C. Sevick
R.A. Wilkinson	W.D. Evans	L.B. Noble	P.A. Shaw
G.J. Willmon	A. Fergusson	K.E. O'Connor	R.H. Teskey
	A.F. Gomm	J.W. Park	J.C. Underhill
	R. Horsfield	W.R. Patton	G.C. Wells
	R.A. Brenneman	L.J. Fisher	R.G. Wilson
		J.E. Bower	

FROM: G.E. Kruk

Attached, for your future reference, is a synopsis of Controlling Interest, a recently published book on the NEP by David Crane, economics editor of the Toronto Star. Crane's analysis provides a detailed critique of the foreign owned sector of the oil and gas industry in Canada, bringing together and treating as gospel all the allegations ever directed at the multinationals; it then goes on to unquestioningly praise the NEP as the government's "belated" policy response to the alleged threat posed to Canada by the multinationals.

This overview was prepared because Crane's book is certain to join Jim Laxer's publications of the mid-1970s and the Bertrand Report as the "standard source for public debate on oil policy" (in the words of Canadian Forum magazine). It will be required reading for most university students taking courses on public policy as well as a source book for practicing journalists. It is, therefore, important that Imperial Oil spokesmen be generally aware of its contents before venturing forth to "debate the issues". This is especially the case as the control which Exxon is said to exert over Imperial is presented by Crane as a prominent example of how branch plants are unreliable instruments of Canadian national policy.

In the near future, I will follow up this material with a companion piece, namely a similar overview of Peter Foster's recently published The Sorcerer's Apprentices. This is a hard hitting and effective critique of both the NEP and the prevailing biases against multinationals that contributed to the energy policy. Foster's book is therefore, a timely and healthy antidote to the dominating influence which pro-NEP publications, such as Crane's book, have so far enjoyed in public policy and media discussions, in Central Canada particularly.

## C.C.

R.E. Landry	D.A. Coghill	D.B. Hay	Corporate Managers
G.H. Thomson	W.J. Mann	W.N. Sande	IOL External Affairs
J.A. O'Connor	P.F. Bartha	D.H. MacAllan	Advisors

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## CONTROLLING INTEREST:

### **THE CANADIAN GAS AND OIL STAKES** by David Crane

(McClelland & Stewart; 1982)

The events of the 1970s - the Arab oil embargo and the dramatic hike in oil prices by OPEC - brought home forcibly to Canadians the vulnerability of their own oil and gas industry. Through many years of careless and shortsighted policies (both federally and provincially), Canadians had allowed control of this valuable resource to fall largely into the hands of multinational companies whose (Crane warns us) "priorities and goals will not always be compatible with the public goals and priorities of Canada." The dissatisfaction and debate triggered by these events culminated in October of 1980 with the passage of the National Energy Policy.

In his book, Crane maintains that both federal and provincial policies, over the past 35 years, have resulted in Canada's oil and gas resources being virtually "turned over" to the multinational oil companies at "low cost and easy terms". Canada has been "rich in resources but poor in policies." The following is a summary of some of the contributing factors, with special emphasis on the actions of the multinationals themselves, which led up to the passage of the NEP and Crane's assessment of the results.

#### I. PERCEIVED INEQUALITIES AND IMBALANCES IN THE OIL INDUSTRY WHICH LED TO THE NEP:

##### a) Domination of Multinationals in the Ownership of the Oil Industry.

- o 14 foreign-controlled oil companies accounted for 82% of Canada's oil production in 1979 (of these, 5 alone accounted for 52%).
- o Similarly, 12 foreign-controlled oil companies accounted for 68% of the gas production in 1979.
- o Of the 25 top oil and gas companies in that year, 17 were foreign-controlled, including all of the top six. There was only one Canadian company in the top ten - Petro-Canada.
- o In 1979, only 34% of the oil industry in Canada was controlled by Canadians.
- o The oil majors were openly hostile to the idea of higher levels of Canadian participation in the wealth and direction of their industry.
- o However, the multinationals' profit bonanza became so excessive in the 1970s that the Federal Government felt it necessary to intervene through the NEP. During the 1970s, the assets of foreign controlled oil and gas companies tripled and the average return on oil and gas stocks was 35.5% compared to an average of 7% for all companies. Moreover, "much of this quick wealth was hemorrhaging out of the country."



b) Excessive Cumulative profits for Multinationals

By the end of the 1970s, the ten largest multinational oil companies (including Exxon, Shell, Gulf and Texaco) had invested just \$2.5 billion in Canada through their subsidiaries, but from that they had paid out \$4 billion in dividends and acquired assets worth \$40 billion.

c) Inequalities of the land system:

- o Federal and provincial land policies gave multinationals easy access to Canadian leases. There were virtually no restrictions and were on a first come, first serve basis; as well, the price of obtaining a lease tended to be very low and the length of the leases generous and easily renewed.
- o The multinationals, because of their larger profit base, could easily outbid the Canadian companies for the best leases and afford to carry out the exploration work required to keep their leases indefinitely. This also enabled them to "sit on" their leases if markets were poor, something the smaller Canadian companies couldn't always afford to do.
- o The 1957 Gordon Commission found that 85% to 90% of land under lease in the 4 western provinces and 88% of the proven reserves were in the hands of foreign-controlled companies.
- o Mobil Oil, in 1965, was able to lease 13 million acres offshore of Newfoundland for just \$37,000 - these acres contained the Hibernia field.
- o By the early 1970s, the multinationals held most of the tar sands leases and over 60% of the leases in the frontier areas, including all of the most promising areas, such as Hibernia, and large portions of the Mackenzie Delta and the Beaufort Sea.

d) Canadian tax system gave unfair advantage to the oil and gas sector (multinationals in particular).

- o Canada's overgenerous tax system meant that by the early 1970s, up to 85% of the oil industry's funds were generated from profits and tax benefits as opposed to the rest of the private sector who could only raise 50% of their funds in this way.
- o In 1971-79, the major foreign-controlled oil companies raised up to 90% of their funds from profits and tax benefits, whereas the peak amount of funds raised in this way by the Canadian oil companies never went over 60%. This gave a clear edge to the multinationals who had to rely less on debt and equity markets for the rest of their funds than did their Canadian counterparts.
- o Imperial Oil took advantage of the tax structure to such an extent that, when they offered \$175 million for a 15% interest in some Canadian Hunter lands in the mid-seventies, they spent only \$58 million of their own money, the rest came from the Canadian taxpayer.
- o Crane claims that the old tax system was so generous that the after tax cost to an oil company of exploration was only 37 cents per every dollar spent, and in the case of Canada lands, it was only 6 cents for every dollar.



- o Revenues in the oil industry rose from \$1.6 billion in 1970 to \$14 billion in 1979, whereas taxes paid went up from only \$200 million to just \$1.5 billion during the same period.
  - o By 1979, the oil and gas industry was paying a 19% return as opposed to 12% for the rest of the private sector, at least partly due to the tax breaks they received.
- e) Foreign Influence on Canada's oil policies through multinationals; Insensitivity to Canadian Interests
- o In discussing the overall relationship between the multinationals and their subsidiaries, Crane writes, "The directors and top executives of these huge enterprises have little sympathy with Canada's goals and aspirations, especially when these come into conflict with their corporate objectives ... they allow little room for independent decision making in the Canadian subsidiaries. Head office is where policy gets made, budgets and investments set up, top executives chosen for the Canadian subsidiary ..."
  - o Crane states that by the actions of Mobil's head office in New York, Canadian self-sufficiency was delayed by three years. Mobil had held the leases which contained the Hibernia field since 1965. In 1976, Mobil Canada finally decided to drill the leases, but their head office in New York vetoed this plan in favour of oil plays in Indonesia and West Africa. It wasn't until Chevron drilled the area in 1979 as part of a farm-in that Canada's largest oil discovery was made.
  - o Crane particularly singles out Mobil, about whom he says, "Mobil's New York head office called the shots down to the pettiest detail."
  - o Crane also claims that the sources and prices of offshore oil supplies purchased for Canada were controlled by the major multinationals, so that their subsidiaries were "forced" to buy their oil through their parent companies rather than negotiate on the open world market for the best price. Through a system of "transfer pricing", Canadian subsidiaries paid high prices "to boost parent-company profit", and at the same time, minimize the total tax bill.
  - o When Canada moved to change its energy policies, Crane tells us that "in reaction to the NEP, the oil majors went on (a capital) strike", and attributes the subsequent cuts in exploration budgets by many oil companies and the suspension of many energy projects in 1981 to this pressure tactic.

## II. CRANE'S TREATMENT OF IMPERIAL OIL:

- a) Exxon control of IOL Decisions
- o "Exxon has considerable influence in Imperial's affairs, in particular budgets, investment decisions, senior executive appointments and research and development."
  - o Crane goes into detail about how far-reaching he perceives this influence to be, to the extent of three budget-investment meetings a year between Imperial Oil and Exxon; that Exxon receives monthly reports on production, sales, earnings etc. and exercises control over major increases in spending and new capital expenditures.



- o Crane pays particular attention to the influence Exxon has over staffing in Imperial Oil: "Exxon has final approval of top executive appointments down to the level below vice-president." He also highlights the Exxon practice of having senior management of Imperial Oil spend some time working in the Exxon organization itself, so that "there tends to be a strong identification by Imperial Oil senior management with the head office."
- b) Exxon Ownership of Research  
In the area of research and development, Crane states "Imperial may develop technology, but it does not own it." Crane argues that one of the unacceptable implications of this S.R.A. arrangement with Exxon is that Imperial Oil research that is financed in part by tax or other incentives in Canada is owned ultimately by Exxon.
- c) Dividend Payments  
In the section of the book which gives a brief history of Imperial, Crane maintains that "Exxon was so insistent on high dividends that Imperial actually lost ground in the market;" In the period 1950-1980, Exxon received \$1.3 billion in dividends from IOL, but only invested new capital in Imperial once, \$101.5 million in 1956.
- d) Exxon Oil Diversion  
In discussing the Bertrand Report, Crane says that the Report concluded that Imperial Oil had little control either over the sources or the prices of its crude. Its freedom to choose was substantially restricted by its parent corporation. He cites the incident of 1979 during the oil crisis of that year, when Exxon unilaterally reduced Imperial Oil's crude shipments from Venezuela and diverted them to the United States, a cutback which has reduced, Crane says, only because of "outcries from Canada."
- e) Canadian Content/Benefits
  - o Crane also uses Imperial Oil as an example of the way the oil multinationals remained "oblivious" to the movement towards increased Canadian participation in various projects, in that they persistently chose large international engineering firms for their projects (i.e. Fluor for the Cold Lake Project), thus preventing Canadian firms from gaining the expertise etc. such projects could give them.
  - o He says that "Imperial portrayed the NEP as a wholesale assault on proven industry performers, and went on to question whether Canadian controlled companies could do the job."



### III. CRANE'S ASSESSMENT OF THE NEP:

#### a) Politically Popular

He says that from the beginning, there was solid public support for the NEP with the polls showing 84% in favour of Canadianization.

#### b) Not Unfair to Multinationals

Crane claims that, "Canadians, even under the NEP, continued to be generous supporters of the oil multinationals, providing much of the funding and carrying out much of the risk. Even with higher taxes and other restraints, the oil companies will have plenty of money in the 1980s for diversification. For all the much hated NEP, cash flow will increase four-fold."

#### c) Appropriate Support for Petro-Canada

Crane feels that Petro-Canada made "enormous progress" and is on the whole enthusiastic about its takeovers. He acknowledges that they didn't add a single barrel of oil to Canada's reserves, but "what is much more important, (the takeovers) gave the company a chance to embark on an aggressive exploration program ... to stimulate research and develop and capture industrial spin-offs from energy development for Canada." He goes on to say that Petro-Can "is boosting Canada's drilling capacity in offshore waters, and moving into refinery and heavy oil technology..." He also points out that "Petro-Canada has moved into the oil import business as well, its international role will be of critical importance in the early 1990s."

### IV. CRANE RECOMMENDATIONS:

#### a) Tar Sands

Crane shows particular concern for tar sands development, feeling there is too much involvement by the multinationals. He argues the time has come "for Alberta to review its tar sands lands policies just as the federal government has overhauled its Canada lands regulations."

#### b) Canadian Content

In writing about the Canadian content portion of the NEP, Crane feels we should move towards a kind of central procurement office closely modeled on the British agency, which would closely monitor projects for Canadian content and would also establish guidelines for a "Made in Canada" definition for Canadian content.

### V. CRANE'S CONCLUSION:

Crane ends his book with a clarion call for greater Canadian participation and control of the petroleum industry. There is no suggestion the subsequent near-collapse of the industry was attributable to the NEP:



"We Canadians have created in the last few years, the policies and the institutions - Petro-Canada, Canada Development Corporation, Foreign Investment Review Agency, Alberta Energy and Saskoil, to name a few - that can do the job. Private companies have emerged to back them up that are either Canadian controlled or on the way to becoming so. We have surrounded them with the laws, regulations and incentives which, though far from perfect, make it possible for them to do the job. What now remains is for Canadians, through their governments and public and private oil companies, to insist on a steady widening of their role in oil and gas ..."

Olwyn Blakeney  
November 1982

1. Crane concedes that the flurry of post NEP takeovers adversely affected the Canadian dollar, but maintained that "we must overlook the 'short-term effect' in favour of the 'long-term advantages of the takeovers.' Crane concludes that 'the goal of 50% Canadian ownership remains reasonable by any international standard," and "viewed in the light of the policies of other countries, the Canadian moves are neither unique nor radical, simply belated."



SECTION 2



# MEMORANDUM

EXTERNAL AFFAIRS DEPARTMENT

April 6, 1983.

TO : R.B. Peterson I.A. Ashford L.J. Fisher J.W. Park  
D.D. Lougheed M.C. Arnett A.F. Gomm W.R. Patton  
J.E. Burns D.D. Baldwin G.A. Howse J.W. Pollock  
G.E. Courtnage J.P. Batteke D.W. Hersak H.G. Rainbird  
G.L. Haight E. Bennett G.W. Kalyniuk R.F. Routledge  
R.A. Wilkinson E.C. Birchard V.C. Larson M.P. Schiel  
G.J. Willmon J.E. Bower J.E. Lee L.C. Sevick  
R.A. Brenneman G.G. Mainland J.C. Underhill  
W.D. Evans L.B. Noble G.C. Wells  
A. Fergusson R.G. Wilson

FROM : G.E. Kruk

RE : I.A. McDougall MARKETING CANADA'S ENERGY: A STRATEGY FOR SECURITY  
IN OIL AND GAS (1983)

You may be interested in the attached summary of this recently published book on Canadian energy policy by Ian McDougall. (McDougall, as an Osgoode Law School professor, was a prominent "public interest group" opponent of the Canadian Arctic Gas Pipeline application in 1974-1977, and in recent years has been a member of Petro-Can's Law Department in Calgary - although this is not mentioned in his book.) If the recommendations of this book were implemented, it would further dramatically increase the level of direct intervention and centralized control by the federal government in the entire Canadian energy industry and undoubtedly trigger another bitter federal-provincial battle. Such increased intervention is generally justified on three grounds: (a) the likelihood of future disruptions in offshore oil supplies, (b) the declining world price of oil and gas which potentially jeopardizes the continued orderly development of new domestic supplies, and (c) the large degree of current taxpayer subsidization of the petroleum industry.

This book is a useful reminder that, as the future of the NEP gets debated in the next few years, we cannot assume that the failures of that policy and the current economic conditions will necessarily lead to a new energy policy which is more reliant on the private sector and free market strategies. There is a substantial and quite articulate constituency in Canada which supports even more government intervention.

*G.E. Kruk*  
G.E. KRUK

c.c. R.E. Landry P.F. Bartha J.E. Lang  
J.E. Akitt G.R. Bunting W.N. Sande  
G.H. Thomson D.B. Hay H.W. Shea  
P. Stauff



# MARKETING CANADA'S ENERGY: A STRATEGY FOR SECURITY IN OIL & GAS

by

I.A. MCDOUGALL

(Canadian Institute for Economic Policy; Lorimer & Co. 1983)

## SUMMARY

In view of the uncertain state of the energy picture both nationally and internationally, Canada should regard the National Energy Program as simply an essential first step towards gaining better control over the energy sector. The NEP should now be built on and expanded. There should be more active and direct government intervention through a broadening of the powers of the National Energy Board and establishment of a National Energy Marketing Board which would have wide-reaching regulatory, price-setting and marketing powers.

### I. IMPORTS AND THE INTERNATIONAL PETROLEUM SCENE

- o Although the extent of dependency is unclear, Canada will definitely have to rely on imported oil to meet part of her needs; any energy strategy that assumes long-term availability of international crude is "ill-advised".
- o Moreover, OPEC will be less and less able to meet Western requirements; we are already seeing a deterioration in its power to control the global market.
- o Given the costs and difficulties of developing our frontier and unconventional oil and the lack of any obvious short-term measures to increase Canada's production, the author feels that the "precariousness of Canada's position is immeasurably greater (in 1982) than during the 1983 import embargo."

#### a) Role of the Oil Majors:

- o Multinational oil companies effectively control the transportation and marketing of most of Canada's imported oil; "profit maximization" is the guiding principle behind their marketing decisions with Canada's best interests a poor second.
- o "While the need to maintain harmonious relations with consuming governments may sometimes temper the profit drive, the majors' market systems are presently beyond Canada's legal power to regulate in the event of a clear standoff between Canada's best interests and the profit opportunities available within the international marketplace."
- o Exxon's diversion of Canadian oil supplies in 1978 demonstrates what oil majors would do in the case of a "standoff". (The author claims that Imperial Oil reduced oil supplies for the eastern region by 5% "without ever considering the consequences for Canada if other companies supplying the same market region had problems".) The Imperial argument (i.e. justifying the "diversion" by referring to IEA rules) was "an elaborate attempt to justify the imposition of the maximum burden on Canada."



b) Role of the International Energy Agency (IEA):

- o The IEA has failed to become the "major countervailing force" against oil supply disruptions which was envisioned when it was formed in the wake of the OPEC crisis.
- o The agency has a number of serious weaknesses:
  - The IEA reliance on using a 7% reduction of oil supplies as the benchmark for invoking emergency allocation procedures will prove to be ineffective. In reality, only a 2 to 3% shortage in a major consuming nation is enough to disrupt the system.
  - The IEA agreement has no enforcement mechanism.
  - The agency hasn't been able to establish any firm conservation programs.
  - The agency fails to make provision for the role of major international oil companies in petroleum marketing.
  - There are real differences in philosophy among the member nations which would seem "to preordain limited success in the future."
  - The membership fails to include all the major consuming nations, notably France and the Warsaw Pact nations.
- o "Canada should not place too much reliance on the IEA as a means of securing stability in the international market ..... without making some effort to bring the majors to heel."

c) Peacetime Factors which may constrain offshore oil imports:

- o "Limited domestic development prospects". Producing nations are concerned that excessively rapid modernization (financed by oil export revenues) would lead to social and political upheaval (eg. Iran).
- o "Foreign exchange surpluses". Many of the producing nations have accumulated excess amounts of foreign exchange and large trade imbalances; therefore leaving the oil in the ground as an appreciating asset which does not require sophisticated financial management is becoming an attractive option to some of them.
- o "Armament Sales". There is increasing reluctance by some Western nations to continue trading arms; this could lead to producing countries (especially in the Middle East) using embargoes to pressure consuming nations into providing the weapons they want.
- o "Reserve Life Indices". There is growing concern among some of the producing nations over the rate at which they are depleting their one major non-renewable resource.
- o "East/West Rivalry". There will be increasing competition by Eastern bloc countries for Middle East oil.
- o "Less Developed Countries". The "LDCs" have growing industrial sectors which will require high levels of energy supplies and as a consequence they will become a major source of strain on international oil supplies.



## II. NATIONAL ENERGY POLICY

- o The National Energy Program represents "a major accomplishment" and a move towards establishing an energy strategy which is independent of the major oil companies. (i.e. In the past, the oil majors had a "practical monopoly" over the exploration and development of Canada's oil and an "unhealthy" power over the success or failure of the federal supply projections.)
- o However, the NEP does have "shortcomings":

### Too short-term in Focus

The NEP fails to come to grips with the possibility of unfavourable oil supply trends over the long-term and with the fact that many of Canada's potential sources of energy will need long lead times to develop.

### Uncertainties

It contains a number of initiatives whose productivity is uncertain, notably the Natural Gas Bank and some energy conservation schemes.

### Over-reliance on natural gas

There is reason for concern over the important role natural gas plays in the NEP given the conflicting supply projections of the federal and provincial governments, uncertainty over supply deliverability in the long-term, the financial, logistical and economic barriers to supplying natural gas to eastern markets, and the draw of the export market on Canadian reserves.

### Overly-optimistic Supply Assumptions

The NEP hypothesizes an improbable supply/demand scenario based on the clear assumption that new domestic supplies will be available despite wholesale project cancellations.

### Inadequate Recovery of Economic Rent on Old Oil to Finance New Projects

The NEP failed to address the issue of rising production cost trends and appears to assume the gap between cost and price will continue indefinitely. Economic rent on conventional old oil and gas must be more completely taxed so that capital is available for financing development of higher cost replacement supplies. Otherwise, long-term energy development will place severe burdens on government budgets or other sectors of the private economy.

### Inadequate Tax Payer Return on Public Investment in Frontier

The NEP continues massive government fiscal support for frontier exploration and development. But in return for its 80% investment, government obtains only a 25% (Crown reserve) return. "The public might be better advised to underwrite the entire cost to obtain the totality of any return."

## III. NATIONAL ENERGY BOARD / FEDERAL REGULATORY CONTROLS

### a) Equalization Program

- o Ottawa's equalization program is "imperiled" by distortions caused by energy and resource revenues. Immense Alberta resource



revenues have helped push up the cost to the federal government of equalization and the burden is borne by Ontario and Quebec tax payers who are also the largest consumers of the higher priced energy which was the original cause of the larger equalization payments.

- o Ontario and Quebec (in total) have been "paying" in excess of five times the Alberta contribution towards the "cost" of (a) the equalization payments and (b) the "extremely generous" federal tax subsidies and incentives for exploration and development. (Note: McDougall does not point out that on a "per capita" basis, Ontario and Quebec taxpayers do not pay any more towards these programs than Alberta residents.)
- o McDougall feels that the country will soon be faced with the choice of (a) requiring the "have" provinces like Alberta to make direct contributions towards the equalization program to augment existing financing or (b) retreat from the root principle of the equalization program and significantly reduce transfers.
- o In view of the major fiscal burden that the equalization and the various energy subsidy and incentive (i.e. PIC, PIP) programs puts on tax payers and the distortion caused by oil revenues in the levels of provincial contributions to support these programs, future pricing agreements should place less emphasis on the principle of "fair commodity price" in favour of utility type price regulation. (Note: McDougall's suggestion is that price setting might be done unilaterally by Ottawa rather than negotiated with the producing provinces.)

b) National Energy Board

- o The mandate of the NEB is "impossibly broad and imprecise". In addition, the board in the past has tended to be too "passive" in its role, responding to initiatives from the private sector but making no attempt to formulate policies or strategies on its own.
- o NEB effectiveness has been limited by its reliance on the private sector for much of its data and even its personnel; this dependence guarantees a high degree of NEB sympathy for the oil industry.
- o In recent years, there has been increased involvement by public interest groups in the Board's proceedings. However, because of their lack of funding, "amateurish presentations", and altruistic motivations, the Board has tended to unfairly treat them with "tolerant amusement" and "occasional impatience" even though the issues raised by groups are relevant.

IV. NATIONAL ENERGY MARKETING COMMISSION

- o Use of marketing boards represents "extreme intervention" on the part of the government. However, this increased state intervention is justifiable on the grounds of the already high level of government financial support for the oil and gas industry.



- o McDougall gives a number of justifications for his proposed marketing board, including precedent (i.e. Wheat Board etc.), the legal right of the federal government to regulate trade and commerce, the Constitution. (Note: i.e. The alleged federal rights to use the declaratory powers and the "peace, order and good government" clause to resolve "irreconcilable differences".)
- o Such a Commission is needed as a means of "acquiring the needed degree of ongoing central control necessary to realize the objectives of the NEP."
- o Increased centralized management and control is required because of:
  - a) the inherent nature of Canada's energy market (i.e. the largest energy consuming provinces are not the producing provinces);
  - b) the existing conflict between producing provinces and the federal government;
  - c) the need to "bridge the gap" between lower-cost, depleting conventional energy sources and higher cost, less conventional or frontier sources.
- o "While the oil and gas industry has been one of the strongest defenders of the philosophy of the private market and free (unregulated) enterprise as one of the most important forces of economic progress - one of the great ironies of this country is that this industry has been one of the most dependent upon government support in all forms - protection of markets, development of transmission facilities, collection and provision of data and ongoing subsidies."

#### V. RECOMMENDATIONS

##### 1. Canada Should Exercise Greater Import Source Control

- o Some regulatory control over Canada's import supply system is essential in order to reduce the risk of disruption, to ensure government control over where oil is purchased and to guarantee a favourable balance between contract oil and that purchased on the spot market.
- o Since we cannot depend on outside agencies such as the IEA to maintain stability, Canada should develop supply point flexibility on its own to guard against loss of one or more petroleum sources.

##### 2. Petroleum Import Compensation should be tied to a "Best Efforts" Pricing Standard

- o The Import Compensation Program is useful as a short-term solution to pricing differences. However, in the long-term, a more direct role by government is needed. Possibly government may have to become an international purchaser of crude to reduce reliance on the oil majors.
- o The government should closely track oil imports to determine their source and price as a check against abuse. (i.e. Some refineries try to dispose of disproportionate amounts of more expensive spot market crude and use the Import Compensation payments to make up the difference). This tracking will also further educate the government in the functioning of the international oil marketplace.



- o Government should draw up import guidelines which would allow it to determine the relative quantities of contract crude and spot market crude that should be entering the country at any one time and the average fair landed price eastern refineries should pay. The guidelines would also lead to more security of supply by encouraging source diversity.

3. Petroleum Import Control Board should be Created with the Discretionary Authority to Purchase in its Own Right

- o The Board would act as a balance to the "pre-eminence" position the oil majors hold regarding the importation of oil.
- o Under normal circumstances, the Board would not intervene in the present system, however its creation would mean controls would be available in the case of an emergency.
- o In such an emergency, the Board would assume responsibility for The Petroleum Import Compensation Program, and would monitor source, diversity, cost data on an ongoing basis.

4. Import Crude Storage Capacity should be Upgraded

- o Presently, Canada is obligated by the IEA to maintain reserves for a 3 month period, a target we have had difficulty reaching. Storage capacity should exceed 3 months. This would allow Canada the flexibility to acquire oil during price-depressed periods to use as leverage during periods of higher oil prices.
- o The storage would be administered by the Petroleum Import Control Board and it would also have the power to allocate stored supplies among the refineries.

5. Energy Investment Screening Service

- o Large scale investment for energy projects can precipitate economic distortions and strain traditional sources of capital. Government screening of large borrowings would ensure that the most productive projects would proceed first and would minimize the effect on the economy.
- o Government grants and incentives should be used to gain the voluntary compliance of industry.

6. National Energy Board should assume responsibility for this type of Project Priority-Setting

- o There is a need for more supervisory powers over the energy sector. The NEB should require the oil industry to file detailed submissions with respect to the financial feasibility of a project.
- o The NEB should hold hearings to assess private investment priorities and potential capital obstacles. Out of such hearings, the NEB could develop a prioritized listing of and schedule for major energy projects.



- o The Board would assume a more positive role in the pre-application stage and have the power to defer applications that do not fit the board's priorities schedule.
  - o The NEB would make its approval conditional to the applicant's compliance with the principle of investment screening by the Board.
7. Alaska Highway Natural Gas Pipeline Project should be re-examined in light of changing conditions and priorities
- o The project's benefits to Canada are questionable and its cost overruns have damaged the project's viability.
  - o Canada cannot afford projects which do not contribute directly to its own supply base; there are other energy projects which better deserve the government's attention.
  - o The Northern Pipeline Agency should either be wound down or its mandate expanded to include all northern transmission systems.
8. An Independent Task Force should be established to assess the present Canadian Energy Supply Situation
- o The current doubts about the extent of Canadian energy supplies must be cleared up immediately. A Task Force should be formed to prepare estimates of currently available supply for all energy sources, how to make the most effective use of each, and to assess the cost of alternative sources.
  - o Until this review is completed, no further natural gas exports should be allowed.
9. Public Funding should be made available to Public Interest Groups
- Government should establish a funding program to enable more effective public interest group representation at hearings. Also the government should designate "umbrella groups" who would coordinate the efforts of the various intervenors and avoid duplication of effort.
10. Hearing Process should be restructured
- o The present NEB hearing system is "imbalanced" and "one-dimensional" in that the most consistently heard voice at a hearing is usually the oil industry itself who are also usually the best-equipped, best-prepared and most interested.
  - o The process should be restructured to ensure that the regulators are exposed to a full spectrum of opinion and to as many issues as possible.
  - o Petro-Can, The Petroleum Import Compensation Board, The Petroleum Incentive Board, and the Proposed National Energy Marketing Board should all assume a more active role in hearings.



11. NEB should overhaul the presently applied export criteria

- o The term "surplus" should be eliminated when talking about natural gas exports.
- o The relatively inexpensive and accessible gas which is now being exported is not surplus because all conventional gas supplies can now be absorbed domestically. In exporting gas, we are in reality selling supplies to present-day Americans "in preference to future Canadian customers."
- o The government should revise the Domestic Market Protection Factor and assess Canadian requirements on the basis of market growth over a minimum 15 year period.
- o An "Export Credit System" should be created to pre-determine what percentage of any given gas discovery would be available for export and for how long.
- o The NEB, when determining Canada's energy supplies and requirements, should use an "All-Energy approach" as well as determine the "optimum mix" of energy supplies needed domestically. The NEB should then screen all export applications for compatibility with these broader all-energy goals.

12. NEB Certification should be required for all future Nuclear Power Projects

- o The Board should study proposed nuclear projects on the basis of their comparative cost and scheduling feasibility relative to other energy sources.

13. A National Energy Marketing Commission should be established to fix National Energy Prices

- o The primary mandate of the proposed NEMC would be to determine and administer a "blended energy price" which would take into consideration:
  - the availability and the cost of development (i.e. conventional and frontier)
  - the effect of the price on the level of economic activity in the consumer market
  - the pace and direction of industry reinvestment that may result from the pricing decision.
- o Initially, the "compassion" of the pricing system should be with the producer. (i.e. There should be sensitivity specifically to the real costs of production, the level of federal/provincial "take" and the level of price needed to ensure the feasibility of the initial project investment.)
- o The NEMC should regulate all transactions involving international or interprovincial trade in all energy forms, taking over from existing boards such as the Alberta Petroleum Marketing Board. Only energy transactions occurring completely within one province would be exempt from the NEMC's regulatory monopoly.



- o NEMC should develop price schedules based on negotiations with the producers and on applicable federal-provincial agreements. The higher levels of investment required to develop the newer sources of energy should be considered in developing these price schedules.
- o In summary, the NEMC would provide the following advantages:
  - a) The NEMC would eliminate bottlenecks and ease uncertainties which currently restrain the pace of industry activity (i.e. the NEMC would secure forward price conditions that will facilitate predictable rates of return and help secure financing.)
  - b) From a provincial view-point, the NEMC would make it possible to determine an orderly balance between federal and provincial market-sharing and facilitate comprehensive revenue-sharing between the two levels of government.
  - c) Finally, the NEMC would provide an "informed window" on a "fair energy price" for producers, taxpayers and consumers.



SECTION 3



December 15, 1982

TO :

R.B. Peterson	I.H. Ashford	R. Horsfield	L.J. Fisher
D.D. Lougheed	M.C. Arnett	G.A. Howse	J.W. Pollock
G.E. Courtnage	D.D. Baldwin	G.W. Kalyniuk	H.G. Rainbird
G.L. Haight	E. Bennett	V.C. Larson	R.F. Routledge
J.E. Burns	G.E. Bezaire	J.E. Lee	M.P. Schiel
R.A. Wilkinson	J.E. Bower	G.G. Mainland	L.C. Sevic
G.J. Willmon	R.A. Brenneman	L.B. Noble	P.A. Shaw
	W.D. Evans	K.E. O'Connor	R.H. Teskey
	A. Fergusson	J.W. Park	J.C. Underhill
	A.F. Gomm	W.R. Patton	G.C. Wells
			R.G. Wilson

FROM : G.E. Kruk

"The National Energy Program is the culmination of a number of critical trends in Canada today: the growth of bureaucracy; the declining credibility and political influence of big business; and the economic illiteracy of the general public which under a poll-obsessed, politically bankrupt, Liberal government, has been used as a justification for radical and ruinous economic policies. ... The NEP has perpetrated an enormous shift towards a centrally controlled economy where bureaucratic discretion takes precedence over personal or corporate initiative."

This is a quotation from a recently published book on the NEP called The Sorcerer's Apprentices written by Peter Foster, author of The Blue Eyed Sheiks. This type of book is quite rare in Canada: it is a well written, hard hitting and persuasive critique of interventionist government policies and this country's current nationalistic energy policy; it provides a spirited defense of the market system and the profit motive, as well as an impartial analysis of foreign-owned corporations, in particular Imperial Oil, and finally in the course of doing all of this, it provides meaningful and relevant insights into the operation of government and political power in Canada. It is therefore a uniquely useful and interesting book for Esso Resources and Imperial Oil management.



Accordingly, attached is a comprehensive summary of the statements made by Foster on the subjects of most direct relevance and interest to Imperial Oil. It is divided into eight sections which, while not paralleling Foster's book, provides a more relevant organization for our purposes. I felt it appropriate (and more entertaining) to quote the author's own (often controversial) words, where practical.

Although at thirteen pages this summary is lengthier than a simple book review, my intent was to distill the benefits of Foster's book into a more convenient half-hour of reading instead of hoping you will find the time and opportunity to read Foster's entire 276 page manuscript. Combined with your copy of the summary of Crane's recent book, Controlling Interest, this material will hopefully provide useful background on the critical external issues and the government environment facing our corporation.

C.C.

R.E. Landry

G.H. Thomson

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## I. THE NATIONAL ENERGY PROGRAM DESCRIBED

1. Disastrous Policy: "One of the most revolutionary, controversial and disastrous policies in Canadian history. Quite apart from its adverse direct impact on the energy sector, the NEP helped to decimate stock markets, severely damage the Canadian dollar and destroy the confidence of foreign investors. It also caused the country's industrial future - in the shape of the energy megaprojects - to be held in ransom, and injured Canadian-U.S. relations more than any policy in living memory."

The question here is whether we are dealing with fraud, ineptitude or bad luck. The answer is a little of each."(p.13)

2. A Revenue Grab: Although sold to and seen by the public as a policy whose prime objectives were Canadianization and energy security, in reality, the NEP was a "revenue grab". The NEP's architects "were well aware that they were - to a greater or lesser degree - sacrificing efficient and effective oil and gas exploration and production in order to take the business out of foreign hands and seize more revenue for government." To claim Canadians could enjoy both secure supplies and Canadianization was "perhaps less a fraud than a calculated risk."(p.14)
3. NEP Hurt Canadian Firms Most, Possibly Deliberately: The NEP's revenue grab also worked against Canadianization by the private sector. "This may have been no accident, for the NEP's authors were clearly in favour of putting a much larger portion of the oil business under the control of government rather than into private Canadian hands." Ironically, the NEP's tax increases damaged the Canadian sector of the oil industry - the policy's intended beneficiaries - far more than the foreign multinationals "it was meant to hobble."(p.14)
4. NEP's Costs Underestimated: The NEP's authors had not only underestimated the program's cost (i.e. PIP), they had also severely underestimated the impact of its tax proposals on the industry and the impact of takeovers on the shaky Canadian dollar. They had also underestimated ... another enormously important factor in the nation's economic welfare "-- the reaction of the U.S."(p.159)

## II. THE IDEOLOGICAL ORIGINS OF THE NATIONAL ENERGY PROGRAM

1. Foreign-owned Companies seen as Unresponsive to Canada: The NEP claimed that Canadianization of the oil industry was justified, necessary and feasible; and that it should be carried out by discriminating against foreign companies. (But) Nowhere did it make any kind of case showing that the dominant position of foreign-owned companies had damaged Canada's interests. Its case seemed to be based on the fact that foreign oil companies had been treated too generously (and) on the vague assertion that 'A more fully Canadian industry is likely in the long run to build a more dynamic energy sector, more responsive to Canada's goals.'(p.14)
2. Contributions of Foreign Investment Largely Ignored: "(However) Canadianization is a motherhood issue. ... the implications of foreign ownership are widely misunderstood, and its negative impact overestimated. Meanwhile, the enormous benefits to the Canadian economy of the foreign investment that led to present levels of outside ownership tend to be almost completely ignored. ... without that (initial post war) financial injection, the industry would never have grown. However, the NEP implied that corporate investment in Canada should be considered a



- 6 one-way street. Once a mature company began to return capital to its overseas investors, it should then be considered fair game for expropriation."(p.15)
3. Fear of Windfall Profits: Canadianization was also based on the assumption that, with world oil prices rising in real terms, "the grab" for greater control had to be made now or else windfall profits would go to foreigners. But once the price assumption ceased operating, the rationale for Canadianization disappeared.(p.15)
4. Concern over Growing Assets of Foreign Companies:
  - o What could be called "Ed Clark's Catch 22" was a prominent part of the philosophical core of the NEP: "Foreign-owned companies were bad if they reinvested profits, because that meant they gained an even stronger control of the industry. But if they didn't reinvest them, if they paid them out as dividends to their overseas shareholders, then they were even worse. Such companies should obviously be bought out now."(p.148)
  - o The federal mandarins' concern with foreign ownership also led to a preoccupation with the ownership and financing of the huge megaprojects: "An analysis by (Ed) Clark of the Alsands scheme concluded that the existing tax system was a potential barrier to entry and preserver of the (foreign dominated) status quo of corporate power." Therefore, this obsession caused them to see the Alsands scheme not so much as a massive job creator and a major contributor to the balance of payments and energy security but rather "a government subsidized scheme to increase the stranglehold of foreign-owned oil companies in Canada."(p.198)
5. Galbraithian Distrust of Big Business: "Dislike, distrust and fear of big business and the excessive power it supposedly wielded was not just a gut feeling among the populace. It amounted to an ideology among the left-wing intellectuals who came to the fore when the Liberals returned to power in 1980." These ideas, articulated by economists like John Kenneth Galbraith, maintained that "corporate power was so large that the state was forced to take countervailing powers to itself. Galbraith's thinking amounted to a charter for centralist interventionism."(p.36)... and "a world of overblown government bureaucracies."(p.42) Galbraith's overarching condemnation of capitalism and his belief in the ability of some 'public planning authority' to define and effect a superior 'public purpose' are embraced by many of Ottawa's power elite."(p.43) Trudeauocrats believe all problems can be solved.
6. Cynicism about Business Views: Although both Trudeau and Lalonde opposed nationalistic governments (especially in Quebec) as being "by nature intolerant, discriminatory and totalitarian", they both shared (an apparently more powerful) "lack of sympathy with business and the corporate establishment." This was compounded by the fact that both of them were confident they knew "what businessmen were all about." They believed: "most businessmen were woefully narrow in their views and, worse, ... were intellectually inconsistent (i.e. praise free enterprise one day, but come "cap in hand" to government as soon as their business got in trouble; they'd scream about government policies with which they disagreed, but, if government policies helped get them rich - as did 1974-1979 energy policy - they'd claim it was due to their own skill.) The Liberals - indeed most Canadians - also held profound concerns about the honesty of business advice. The business view wasn't really felt to be important. When they weren't being devious, businessmen were considered to be just like so many Pavlovian dogs."(p.131)
7. Overconfidence in Government Capabilities: This led to the opinion - possible in Ottawa's rarified, ivory control-tower atmosphere - that it wasn't really business who was doing things; it was government policies. ... This in turn had led to an even more misguided belief: that anything business could do, government could do just as well if not better."(p.131,2)



8. Politically Opportune Nationalism: The experience of the brief Tory government demonstrated to the Liberals that a "winning" energy policy would be based on the promise of lower prices and on economic nationalism -- a mixture of criticism of the suspect Multinationals and support for PetroCanada.(p.127)

Economic nationalism was seen as more feasible in the 1980s than when Walter Gordon first advocated it in the 1950s because of "the emergence in Alberta of what appeared to be a viable alternative to the multinationals, a group of entrepreneurs (led by Gallagher and Blair) who appeared to have seized the initiative from the major oil companies in the turbulent seventies."(p.128)

9. Concern Over Alberta's Wealth: The NEP's architects in EMR were concerned about the implications of Alberta's rapidly growing relative wealth on national unity and on the federal government's ability to perform its national economic responsibilities, including Equalization payments.

### III. EVOLUTION OF THE NATIONAL ENERGY PROGRAM

1. The crude price increases resulting from Iran's withdrawal of its oil supplies from the world market in 1978-1979 led to the critical reassessment of Canadian energy policies. This review formed the basis of the 1980 NEP: "The analytical work at EMR was carried out under the short-lived Conservative government of Joe Clark. The fact is significant because it was neither initiated by the Clark government nor by the Liberals that had preceded it. However, it was eagerly seized upon by the 1980 Liberal government, whose hunger for a return to power considerably exceeded the size of its policy platform."(p.74)
2. The appointment of Mickey Cohen as Deputy Minister of EMR in April 1978 marked the beginning of the beefing up of EMR's policy function; he also brought in a number of key players from the Department of Finance who would lay the groundwork for the NEP. Ed Clark was the most notable of this group.
3. Clark and his EMR team shifted EMR's preoccupation away from the use of rising energy prices and tax incentives in pursuit of self-sufficiency to a macroeconomic concern for the effects of rising oil prices on fiscal balance (i.e. Alberta's growing wealth), on eastern Canadian industrial competitiveness and on corporate "windfall profits." State intervention was seen as the solution to all these problems.(p.77)
4. The replacement in late 1979 of Cohen by Ian Stewart further accelerated these trends. Stewart had a closer philosophical affinity with Clark than even Cohen did. Both Stewart and Clark were brilliant academic economists, both shared profound social and, to some degree, socialist convictions, and both had immense confidence in the healing powers of government. At this time, George Tough and Len Good also were brought over to EMR from Finance to complete the policy team.
5. The message this EMR team was communicating in 1979 was that existing (Liberal) energy policy was deficient in that the federal government was "quickly giving away the farm" -- to the multinationals and Alberta. In so doing, Ottawa was impoverishing itself and threatening national independence and unity. Their preoccupation was therefore the flow of energy revenues and the belief that the perceived problems would grow because it was assumed energy prices would escalate indefinitely.



Therefore, there were obvious roots for conflict given that the new Tory government was pro-business, dedicated to oil self-sufficiency by 1990, wanted to disband PetroCanada and stressed its ability to co-operate with the Provinces.

6. The attitude of the EMR team, like all of Trudeau's technocrats, was the arrogant one that they had the "best", the "right" rational solution, and that "any new government which came along with a different set of policies could only have done so because they had not sufficiently analyzed the situation, their thinking was woolly. They needed to be educated."(p.83)
7. The advice offered to the Tory government by EMR was that:
  - a) oil self-sufficiency by 1990 would be difficult and expensive "barring happy surprises"; industry wouldn't likely find more conventional oil and shouldn't be given more money to try - they and Alberta were too rich already.
  - b) the whole fiscal energy scheme was skewed: Ottawa was getting only 10% of petroleum revenues; the "excess cash" in the coffers of Big Oil was merely inflating costs (i.e. land) and allowing them to diversify and expand.
  - c) the EMR analysis painted a picture of "a pernicious and predatory oil industry muscling out smaller Canadian companies while spreading its tentacles outside the oil business through diversification. In particular, the bureaucrats seemed "obsessed by Imperial Oil and Shell Canada." (IOL's farm in with Canadian Hunter was seen as a "dumb" deal for IOL, but illustrative of how the company's wealth permitted it to "throw its weight around.") (p.96)
  - d) Big Oil was accused also of holding up tar sands development and in effect "blackmailing" the nation through their time-consuming efforts to obtain tax concessions.
  - e) Further tax incentives for industry weren't necessary; the pace of supply development could only be further accelerated by direct government actions.
  - f) This was the time to expand, not dismantle, PetroCanada, and to utilize other "chosen instruments".(p.95-98)
8. The Tory promise to dismantle PetroCanada was a "policy albatross", an "ill-thought through ideological stance" which contradicted a global wave of government intervention in response to OPEC - induced uncertainties:

"It is a rash party - particularly one in a minority government - which allows either ideology or election promises to stand in the way of political expediency. It is an even rasher one that allows itself to appear to be opposing the sweep of history."(p.99)

Although advised by even their own pollsters that the commitment to dismantle PetroCan was seen as illogical and dogmatic, the Tories were by then preoccupied with the negative image they had already acquired for abandoning other 1979 election promises.(p.120)

EMR's advice not to dismantle PetroCan was based on numerous arguments: PetroCan was essential for self-sufficiency; government needed a "window" on industry; there was greater government involvement in energy all over the world; the government would lose money selling PetroCan; as well, most Provinces supported PetroCan as did much of the private oil industry (i.e. attractive partner for financing purposes



- and, if government must be involved, it's better to deal with a corporation than bureaucrats); finally, PetroCan enjoyed a great deal of public support. EMR recommended at most only the sale of unnecessary PetroCan assets.(p.105-110)
10. Ultimately, PetroCanada itself became the first major beneficiary of the Tories' policy of dismantlement: "Joe Clark's attack on PetroCanada served merely to accentuate the public's regard for it. This, in turn, confirmed to the subsequent Liberal government that the time was ripe for a revolutionary new policy of interventionism and discrimination in the energy field, the NEP."(p.110)
  11. During the Liberal period in Opposition and during the 1980 election campaign, Lalonde and Joel Bell of PetroCanada dominated Liberal policy formulation. "That Bell should advise an opposition party while a senior executive with a Crown corporation clearly appears to be a conflict of interest. Nevertheless, Bell's attitude is typical of the modern senior bureaucracy. They are rule-makers who consider themselves unbounded by rules, individuals so convinced of the oneness of the national interest and their own convictions, and so self-confident of their own abilities, that they feel almost compelled to lead the policy process rather than follow it."(p.141)
  12. "The priorities of the electorate were far different from those of Ottawa's power elite, and over the ensuing two years (i.e. 1980-1982), it was the electorate's priorities that were to be jettisoned. The voters of Canada ... in the 1980 election, had voted for lower energy prices, security of supply and some vague notion of Canadianization - embodied in their support for the security blanket of PetroCanada. The bureaucrats wanted higher prices, and they were quite prepared to put longer-term security of supply at risk in pursuit of their top priority - further central regulation, and public control, of the oil business."(p.142)
  13. When the Liberals returned to power, EMR submitted the same policy advice to them as they did to the Tories - but they now found themselves dealing with a much more receptive audience. It was presented by Clark as an unemotional, rational response to the problems of foreign control and lopsided fiscal federalism. Happily, the proposed solution was "economically necessary" as well as "politically expedient".(p.144)
  14. "This absence of any comprehensive case against the foreign-owned big oil companies (i.e. to justify a discriminatory policy) ... in the end ... was addressed through the release, just before the announcement of the NEP itself, of a report by the PMA. ... The report drew a series of comparisons between the foreign-owned and Canadian segments of the oil industry, and, without indicating the very large differences in the size, nature and investment requirements of the companies within the two groups, presented an "analysis" highly unfavourable to foreign companies. It implied that the foreign companies were paying out too much in dividends and resultantly investing too little, while the more virtuous domestic companies were incurring heavy debts in their promotion of the oil business."(p.144)
  15. "Washington regarded the NEP not only as an example of 'uncivilized' behaviour but also as a dangerous precedent that might be followed by other countries. In the U.S., the Canadian attack on big oil was regarded as a blatant attempt to capitalize on a widespread nationalist sentiment; sentiment of the kind that should be ignored by responsible central governments."(p.160)
  16. As American public statements became more harsh, they simply strengthened the resolve of the NEP's promoters and mobilized even more moderate nationalists "in a kind of knee-jerk defence of the Canadian position."(160) Much of the U.S. criticism was dismissed by the Trudeau government as a product of the U.S. oil lobby.



17. "For its total lack of contrition, one can only marvel at the NEP Update". The government knew that if it was to get the industry to respond - to help halt the slide in the dollar and cool U.S. feelings - then it had to backtrack on the tough anti-foreign oil company stance of the NEP. The Update clearly did so. Suddenly, the big foreign oil companies weren't the predators of the NEP; they were partners.

#### IV. ALBERTA GOVERNMENT AND 1981 MOA

1. Major Federal vs. Alberta MOA Issues:
  - (a) World Price: "EMR did not like the idea of world prices as a reference point, considering them artificial and arbitrary - also far too high ... They didn't like the mechanism of the market. Instead, they wanted a 'rational' price - just adequate enough to bring on required new supplies."
  - (b) Federal wellhead tax on petroleum revenues: Lougheed opposed such taxes, suggesting that "if the federal government wanted more revenue, it should look at reducing incentives; take it out of the industry instead, he said".(p.121)
2. Clark Government Took Hard Line with Alberta; No Confirmation of Deal: Ultimately, EMR "galvanized their (Tory) political masters into taking a hard line, such that Lougheed accused the Clark government of effectively adopting a position very close to Ontario's and threatening unilateral action against Alberta. "In the end, ... Clark's government chose a course that almost certainly held the potential for further confrontation with Alberta. Its energy package ... was ... certainly not a package that capitulated to Peter Lougheed. As the (Dec.11) budget was tabled, there were rumours that an agreement with Alberta was close, but such rumours had been around since negotiations started."
3. Hostility between Trudeau and Lougheed negotiators: "The federal side scarcely disguised their conviction that their own mission was a national one, while Alberta's was inevitably more narrow and - by implication - more short-sighted and selfish. However, the Albertan public servants considered themselves to be fighting for far more than narrow, provincial interest. They saw themselves as an outpost against the dark forces of federal interventionism and centralism."(p.163)
4. Little Progress in 1980: Meetings in 1980 were nonproductive mutual monologues. Alberta regarded Ottawa's unilateral NEP as "the economic equivalent of Pearl Harbour".(p.165) Lougheed said no further negotiations could be held until there were "significant" changes in the NEP.
5. Alberta did not consult Oil Industry: The oil companies "offered their services to Alberta, but Alberta wasn't interested. Whether it was because the provincial mandarins thought they could do the job themselves, or whether it was because they mistrusted the industry is uncertain. ... They failed to avail themselves of the industry's information, and for six months locked themselves into a rarified world of economic assumption ... with their Ottawa counterparts. The bureaucrats were truly slicing up pie in the sky."

Both Governments succumbed to pressure: The MOA was finally negotiated because both Ottawa and Alberta were under growing pressures which suggested the need for compromise. Ottawa had to produce a budget, the economy was deteriorating and Coult's by-election loss indicated political trouble. In Alberta's case, it knew some oil companies were badly hit by the oil cutbacks, and that weapon "was proving



nowhere near as effective as Lougheed had hoped. There were also rumbles of discontent about using non-conventional oil projects as a bargaining tool. Alberta had run out of political options."(p.174)

7. 1981 MOA was bad deal by Alberta:

- (a) Since the signing of the MOA, "it has subsequently been suggested that Alberta was outsmarted by the federal side, that Ottawa knew the damage that would subsequently be done to the industry by the agreement, but figured Alberta would be left carrying the can. That may be crediting the federal side with too much foresight and Machiavellian deviousness, but the fact remains that the projections and assumptions 'agreed upon' were wrong. The impact on the industry was severely underestimated. Alberta was left carrying the can."(p.170)
- (b) But when the MOA was signed and analyzed, "the numbers just didn't make sense. This deal wasn't much better than the NEP. In fact, in places it was worse. Its assumptions were all wrong; its revenue projections were pure fiction; it was just a disaster. Either Alberta had been conned, or it had sold them down the river."(p.22,3)

8. Alberta betrayed Oil Industry: Alberta "seemed to have gone happily along with the fiscal pillage of the industry." Alberta, like Ottawa (i.e. its preoccupation with "fine tuning"), "seemed to have little practical concern for the industry's share of revenues. Despite great pressure, the province had maintained its royalty levels. Moreover, although it so strongly disagreed with the NEP's discrimination, it agreed to administer ... the PIP grant system. ... This aspect of the agreement was seen by the industry as a betrayal".(p.178) Alberta also accepted crippling levels of federal taxation on industry.

9. Oilmen criticize Lougheed: It seemed to oilmen that Lougheed, industry's ally if not friend, "had been cajoled or conned into a deal that fed the oil companies to the wolves," ----- had "sold out".(p.177) Since 1971 Lougheed "had become the idol of the Alberta religion of self-assertion. But now, in the wake of the federal-provincial agreement, even his closest acolytes were beginning to examine his feet."(p.182)

## V. CORPORATE WINNERS AND LOSERS

1. Dome:

- o Dome petroleum was the company that persuaded so many people - especially the banks - that it could defy the laws of economic and corporate gravity. Now in the summer of 1982, Dome, like an elephant tottering on a forty-storey building, was an object of fascination. One thing was certain; if it came down, it was going to create one hell of a mess."(p.213)
- o The NEP's architects decided the tax system was even more excessively generous for Dome than it was for the foreign-owned majors.(p.216) However, Gallagher can't both claim personal credit for Dome's rise and blame government for its 1982 demise. The appropriate axiom is: "He who lives by the government, must be prepared to die by the government."(p.222)



2. PetroCanada: Since the NEP, the industry view that PetroCanada represented the "thin edge of the socialist wedge" is no longer an exaggeration: "Ottawa now clearly sees PetroCanada less as an instrument to influence petroleum industry activity in the national interest, and more as the vanguard of growing state ownership and control."(p.226)
3. Imperial Oil: Because distrust of the major foreign-owned oil companies was an important factor behind the NEP, and because IOL is a critical target of those negative feelings, Foster decided to examine IOL's relationship with Exxon and the character/motivations of its top executives:
  - o IOL's management "genuinely believe that it is possible to serve both their shareholders and their country, and that there is essentially no long term difference between the interests of the Exxon Corp. and the widow from Sarnia." (i.e. average Canadian shareholder)(p.244)
  - o Foster argues that the entrepreneurial oriented Bill Hopper is trying to take PetroCanada in the opposite direction, that is, a more "free enterprise" view that would put PetroCanada's corporate self-interest before the political or policy goals of the federal government. Foster speculates that PetroCanada's public image could suffer if, in the future, it is seen as just another major oil company and no longer an "agent of the public interest."(p.220-3) (The recent departure from PetroCanada of Joel Bell - EMR and PMO's man at PetroCanada - may increase the friction between PetroCanada and the government on the question of the Corporation's principal role.)
  - o "When it comes to the management relationship, Exxon operates much less like a control centre than a giant investment club".(p.246) Although IOL is different from other Exxon affiliates in that it raises its own capital, its investment criteria are no different and it cannot make major investments without Exxon's approval. Exxon's ultimate power (of veto) is undeniable. However, because both companies think alike and analyze corporate issues in a similar fashion, major disagreements are unlikely to arise. Therefore, the question of Exxon manipulation of IOL is "largely irrelevant". The Syncrude project was a fairly typical example of how Exxon defers to "the wisdom and specialized knowledge of Imperial's management."
  - o Foster quotes IOL executives to the effect that: (a)"when Imperial goes to Exxon, it is not going for instructions, it is going for approval" (which is unlikely to be withheld because of the substantial minority Canadian shareholding group in IOL), and (b)"the Exxon-Imperial relationship is a communications rather than a decision-making process."(p.254)
  - o "Until the first OPEC crisis of 1973-74, Imperial Oil was the Canadian oil industry's undisputed technical leader and its most credible voice."(p.254) However, Imperial's crown then began to slip: contributing factors were the perceived self-serving turnaround in the forecast of oil and gas reserves in 1973-1975, the CAGPL rejection, the need to buy back into Alberta plays through Canadian Hunter ("in Calgary, the farm-in was viewed as the most expensive piece of humble pie in Canadian oil history"), the lower profile in IOL's Beaufort and East Coast plays, the NEP and the Bertrand Report.)(p.257-9)
  - o Imperial was relatively slow to realize the extent and influence of the political hostility toward it. This was the case for two reasons: (a)IOL's world is a "rational" world (and "corporate bogeymen and politically bankrupt governments clutching to any policy to survive (are) irrational"), and



(b) because IOL is a "huge self-contained system that provided not just a place of work but a total environment." (p.259) IOL employees simply cannot believe anybody would take seriously charges that IOL is capable of any form of corporate rip-off. Therefore, the usual corporate reaction to such charges tended either to be incredulity, indifference or self-righteous rejection.

- o The Bertrand Report is the "classic example" of how "Imperial's determination to play "by the rules" contrasts markedly with the sort of tactics used against them:" (p.261)

"It is debatable whether the Bertrand Report should be considered as an example of Ottawa's ignorance of corporate motivations, workings and relationships, as an example of outright antagonism towards big oil companies, or as an example of how easy it is to manipulate the press in an attempt to influence public opinion. The fact is that it was an example of all three."

- o IOL "has to get much smarter about the whole devious nature of politics." And it is getting smarter. CEO Don McIvor is more sensitive to the importance of image than were his predecessors: IOL is now less likely to be arrogant or outspoken on issues. But while "Imperial Man" is more concerned with how he is perceived "he sees nothing wrong with what he is". (p.265) It is the new business environment which is both irrational and ultimately harmful, not IOL. In the view of "Imperial Man", it is the environment that must ultimately change, not himself. And "indeed, there are now signs (i.e. NEP update etc.) that it will be changed." Economic efficiency and financial prudence may again come to count more than political expediency.

"Imperial's fortunes, even as they appear to be blackest, may infact be picking up. The false gods are crumbling. ... In relative terms, Imperial remains one of the most financially sound and well-managed companies in Canada. Just one of the several short-term ironies of the NEP is that, if anything, it has actually increased Imperial's relative strength vs. its more Canadian counterparts." (p.266)

#### VI. 1982 OIL INDUSTRY SLUMP: IS THE NATIONAL ENERGY PROGRAM TO BLAME?

1. NEP Aggravates Recession and Inhibits Recovery: While the economic recession would have hit the oil business without the NEP, "the NEP aggravated the recession and harmed the very companies it was meant to be helping. Moreover, the longer-term impact of the NEP - based on a discretionary system run by Ottawa bureaucrats - has not yet been seen. As it was, in the summer of 1982, while much of the Canadian oil industry was fighting for its financial life, it was also struggling with a labyrinthine new set of government rules and regulations that threatened, like some massive encrustation of barnacles on a ship's hull to slow progress to a crawl." (p.15) Therefore, in addition, "the NEP and its aftermath will certainly influence the willingness of private investors to undertake such projects if economic conditions improve." (p.201)
2. Both Federal and Alberta Governments Contributed Directly to Megaproject Collapse: World wide, in 1981, slumping oil prices, inflation and rising interest rates were the primary reasons for the collapse of the megaprojects. However, the governments of both Canada and Alberta not only failed to predict these trends, but they also



contributed to the megaproject collapse more directly: "In Canada, the megaproject outlook had been darkened by federal-provincial wrangling, the nationalist and interventionist thrust of the Liberals' NEP, and by the attitude of ministers and public servants who, imagining that they had the situation totally under control, paid little heed to the claims and demands of the oil companies or the exigencies of world oil. The federal government in particular had created a climate of distrust in which no company could be sure that an agreement made one day would be honoured the next. The whole Alsands exercise was characterized by an almost obsessive concern on the part of federal officials that profits on the venture should be regulated down to the very minimum.

Foster points out the NEP's authors assumed the oil companies would undertake the megaprojects regardless of fine tuning. All company efforts to claim the risk was too great or the tax regime inadequate were perceived by Ottawa simply as Big Oil's efforts to outsmart and/or "blackmail" them. Ottawa did not like the idea of a profit "cushion" against the huge risks involved in megaprojects and saw it as a strategy for windfall profits.(p.197) For the federal bureaucrats, Syncrude stood as an example of how, despite their "screaming", the oil companies wouldn't abandon a major project; it also stood as an example of how Alberta did much better out of the tax system than did Ottawa and how the companies "conned" them with their figures - neither of which they would let happen again.(p.199)

3. Approvals Process Too Inflexible: "There are perhaps three lessons to be learned from the collapse of Alsands. One is that, such projects are uniquely sensitive to world prices and costs. The second is that the regulatory approval and control of such projects has become a far too inflexible and cumbersome process. The third is that bureaucrats are nowhere near as omniscient as they imagine themselves to be."(p/194)

## VII. WHAT THE NATIONAL ENERGY PROGRAM ILLUSTRATES ABOUT GOVERNMENT AND POWER IN CANADA

### INTRODUCTION

"The rationale and momentum of the NEP came as much, if not more, from within EMR as it did from the Liberals. In total, it was the extraordinary combination of (Liberal) political ego, ideological backing from the heart of Trudeau's power machine, and bureaucratic commitment - all supported by polls reflecting the public's misgivings about major oil companies - that was to provide the motive force for a policy package of revolutionary implications."(p.142)

### 1. EXCESSIVE, INDEPENDENT POWER OF BUREAUCRACY

- (a) Senior Bureaucrats Saw Themselves as an Omnipotent Group: "The mandarins who created and nurtured the NEP were not wicked, or unintelligent or without social conscience. Their fault lay in their exaggerated views of their own abilities and the competence of the state." They were Sorcerer's Apprentices, allowed by the Liberal government, to "exercise powers they did not fully understand, could not control and which, in the end, were bound to overwhelm both themselves and their political masters."(p.16)



(b) Bureaucrats Advise/Persuade Governing Parties, Not Serve Them:

- o The Liberal government and senior bureaucrats share a reciprocal affinity of perceptions such that the Joe Clark government had difficulty "bringing the bureaucracy to heel." However, what the Clark period really demonstrated was that "the bureaucracy felt themselves quite independent guardians of a set of values generated within their own ranks. The main thrust of the NEP, for example, was developed within the department of EMR under a Tory government quite unsympathetic to it. Equally important, the Liberal government itself had in the previous decade, proved unreceptive to the kind of interventionism espoused in the NEP. The bureaucrats under the Tories were not pining for their previous Liberal masters as much as for more reasonable ones."
- o The clash between EMR and the new Tory government was illustrative of the fact that the modern powerful public service no longer performs its traditional role of simply serving government, of advising it and providing programs for implementing its policies. Instead, a "committed bureaucracy ... serves what it perceives as the national interest before it serves the ill-thought out policies of a fledgling government."(p.87)

(c) Ed Clark's role in the NEP is a case study of how much policy influence a bureaucrat can wield in the absence of, and sometimes despite, firm guidance from elected politicians.

(d) Source of Bureaucratic Influence - Providing Ministers with Options:

- o "Politicians inevitably choose alternatives rather than pursue an issue from analysis to decision. Bureaucrats provide both the information and the policy alternatives ... Those who analyse a situation and reduce it to manageable proportions are effectively making a decision ... It is virtually impossible for a minister to go in any direction but that chosen for him by his bureaucrats."
- o The natural tendency of Ministers to rely upon their senior civil servants is also a function of their hectic schedule: being submerged by paper "it becomes progressively easier" to reach out to the familiar, to your aides and civil servants, who speak the same kind of decision-making language as you. ... As a result, you reach out less and less to the unfamiliar, to the real outside world, to people."(p.54)

(e) Profile of Senior Bureaucrats: Academic, Self-Confident, Secretive: "This bureaucratic elite (i.e. in the line-departments and central agencies) had a new style and a new approach: most notably, their academic and professional backgrounds tended to be in economics and law and their work experience tended, if at all, to be as academics or lawyers; they were "idea people" who tended to shift relatively quickly from department to department depending on where the policy action was; government, for them isn't a vocation so much as an opportunity to advance quickly and exercise more clout than in any private sector job; they developed a feeling of elite intimacy, regarding those outside the policy process as powerless and unimportant, they are secretive by nature to "outsiders" (p.52,3), they have "unshakable faith in their own purity of purpose."



- (f) Trudeau's "Rational" System of Countervailing Bureaucracies Contributes to Reduced Power of Elected Ministers: Within Trudeau's complex system of countervailing bureaucracies and central agencies, the most powerful Ministers were the technocrats, like Lalonde, who knew how to 'work the system'. Politics became bureaucratized. Strong independent ministers, especially those leaning towards free enterprise, left in frustration. Roles were reversed: the bureaucracy was the source of ideas and Ministers "were there to push through the policies evolved by their mandarins. Indeed, the bureaucracy became politicized not so much in that it absorbed the political priorities and objectives of the Liberal Party, but in that it set them."(p.55)

2. Danger of Basing Economic Policy on Polls:

- o "Accusations of economic illiteracy are harsh, but they are true. ... Nevertheless, public opinion is considered a quite legitimate basis for sweeping economic operations on the Canadian corporate sector."(p.33)
- o The NEP demonstrates the dangers of basing complex policy on the polls, on "public ignorance and misconception." "In particular, the conventional wisdom has long held that governments are competent and corporations are too powerful (and pernicious). This has inevitably led to a long-term trend to support the acquisition of more and more power and regulatory control by central government, and to an increasing tendency to ignore the voice of business."(p.30) Business is seen by the general public as simply a narrow interest group rather than the engine of wealth and growth.

MOA is Indictment of Government Intervention and Federal-Provincial Decision-Making: The most plausible explanation for why the MOA left the oil industry in such a "fiscal desert" is that:

- (a) "The federal-provincial agreement was getting into a degree of fine-tuning and governmental regulation that is simply not possible in any society, let alone one where the oil sector is predominantly private."(p.180)
- (b) "In a naked clash of (federal and provincial) political self-interest ... the last ... consideration (is) the health of the oil industry."

VIII. CONCLUSIONS

1. NEP Represents "National Socialism": "The economic nationalists seek a further shift in the balance of power from business to the state on the basis that control is better vested in the Canadian state than in a foreign-controlled private sector. As such ... what they are espousing is less appropriately described as economic nationalism than as national socialism."(p.268)
2. Free-Enterprisers are Not Outspoken: The public's confused view that government is the most important player in the economy "has led to public support for increased government intervention in the name of economic well-being. The advocates of interventionism are articulate and seem to display admirable public concern. The advocates of free enterprise seldom articulate their views at all."(p.269)
3. The NEP is Not in the Canadian Tradition of Government Intervention: "Historically, government involvement in Canada has been of the (pragmatic) type recommended by free enterprise philosophers: that is, to achieve objectives or build projects (i.e.



CPR) that could not be achieved by the private sector alone. The NEP, however, preaches something quite different: that government should take over viable parts of the private sector merely because they are foreign-owned."(p.270)

4. Fine-Tuning of Profits is Strangling the Economy: Because of their "anticapitalist bias", Ottawa mandarins conclude that a profitable industry means industry has too much in terms of prices and tax breaks. "Hence, their eternal quest is to 'fine-tune' windfall and 'excess' profits out of the system." But profit is the "motive force" of our economy, so that by fine-tuning, even for reasons of social equity, "the whole wealth generating process must slowly but surely be strangled."(p.274)
5. Interventionist Do-Gooders are Blinded to Adverse Effects: Despite the failure of Trudeau's rational planning, "Ottawa's enlightened interventionists continue to believe in their ability to perpetrate a more efficient society. Blinded by their own fervent desire to rectify inequality and "do good", they do not consider for a second that gross inefficiency might result, and that the very health of society could be in danger from their very prescriptions. They are experts at the game of false logic: that supporting the health of corporations is in some way depriving the much-invoked "little man"; that because their intentions are good, the results cannot be bad..(p.272)
6. Government Power is Excessive: "A dangerous imbalance has grown up between the powers of government and of business ... This book ... makes a powerful case for not allowing further economic control to fall into the hands of central government and the bureaucracy without examining closely its justifications and analyzing its likely results. It also ... establishes that there is an urgent need for more experience of business in the bureaucracy and for a greater awareness of the limits of its own ability. ... The experience of Joe Clark's 1979 Tory government indicates that real change requires more than merely the replacement of one party by another."(p.275-6)

(2) Edward Shaffer, Canada's Oil and The American Empire (1983)

(3) John W. McDougall, Fuels and the National Policy (1982).

G.E. Kruk  
Dec.14, 1982

The Laxer and Shaffer volumes reiterate and extend the popular conspiracy theory that seeks to explain (a) the motives and behavior of foreign-owned oil companies in Canada in terms of subservience to the global interests of their foreign parent corporation, and (b) Canadian energy policy generally as the alleged product of the immense political power of the oil industry lobby and U.S. Government interference. The Laxer and Shaffer volumes are already a standard reference source for university audiences; as well, Laxer's new book is likely to reinstate Professor James Laxer (currently Parliamentary Research Director for the NDP) as the favorite energy "expert" and consultant for the mass media, a position he previously held in the mid 1970's. Both of these books specifically highlight Imperial Oil, citing numerous alleged examples of the company's subservience to foreign interests.

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Shaffer 1983: The summaries of Laxer's and Shaffer's books are located in Section 1.



# MEMORANDUM

EXTERNAL AFFAIRS DEPARTMENT

July 13, 1983

TO:	R.B. Peterson	I.H. Ashford	V.C. Larson	R.F. Routledge
	D.D. Loughheed	M.C. Arnett	J.E. Lee	M.P. Schiel
	G.E. Courtnage	J.P. Batteke	G.G. Mainland	L.C. Seveck
	G.L. Haight	W.D. Evans	R.H. Millar	J.C. Underhill
	J.E. Burns	L.J. Fisher	K.E. O'Connor	R.G. Wilson
	R.A. Wilkinson	A.F. Gomm	J.W. Park	
	G.J. Willmon	R.A. Brenneman	W.R. Patton	
		G.A. Howse	J.W. Pollock	
		G.W. Kalyniuk	H.G. Rainbird	

FROM: G.E. Kruk

Attached, for your reference, are summaries of three more recently published books on the Canadian petroleum industry:

- \* (1) James Laxer, Oil and Gas: Ottawa, The Provinces and the Petroleum Industry (1983)
- (2) Edward Shaffer, Canada's Oil and The American Empire (1983)
- (3) John N. McDougall, Fuels and the National Policy (1982).

The Laxer and Shaffer volumes reiterate and extend the popular conspiracy theory that seeks to explain (a) the motives and behavior of foreign-owned oil companies in Canada in terms of subservience to the global interests of their foreign parent corporation, and (b) Canadian energy policy generally as the alleged product of the immense political power of the oil industry lobby and U.S. Government interference. The Laxer and Shaffer volumes are already a standard reference source for university audiences; as well, Laxer's new book is likely to reinstate Professor James Laxer (currently Parliamentary Research Director for the NDP) as the favorite energy "expert" and consultant for the mass media, a position he previously held in the mid 1970's. Both of these books specifically highlight Imperial Oil, citing numerous alleged examples of the company's subservience to foreign interests.

\* Please Note: The summaries of Laxer's and Shaffer's books are located in Section 1.



The McDougall book, like Peter Foster's The Sorcerer's Apprentices (1982), is a welcomed exception to the typical academic analysis of the Canadian oil industry. McDougall's more impartial analysis leads him to reject the conspiracy thesis that blames the continentalist orientation of Canadian energy policy on foreign ownership. Instead, McDougall attributes continentalism to natural geographical and ultimately economic imperatives - U.S. and Canadian energy trade simply makes good economic sense and is pragmatic policy. He points out that Canadian as much as foreign-owned oil production companies promote such policies (even PetroCanada) and that public ownership is therefore a no more effective policy tool in this respect than regulation.

In short, as the future of the NEP and PetroCanada become more publicly discussed in the pre-election period ahead, company spokesmen who are debating the energy issues raised by authors such as Laxer and Shaffer\* can refer to counter-vailing assessments provided by John McDougall as well as Peter Foster to help support their rebuttal.

*G.E. Kruk*

G.E. Kruk

cc: G.H. Thomson  
J.E. Akitt  
R.E. Landry  
P.F. Bartha  
J.E. Lang

- \* (The Laxer and Shaffer books are essentially in the same thematic category as David Crane's Controlling Interest and Ian MacDougall's Marketing Canada's Energy which were previously summarized.)



## FUELS AND THE NATIONAL POLICY

by

JOHN N. MCDUGALL  
(Butterworths, 1982)

### Introduction

Professor John McDougall's essential argument is that Canada has never really had a truly national policy for its various fuels (i.e. oil, gas, and coal) and still does not, despite the NEP. By a "national" policy McDougall refers to Canadian domestic fuel requirements being supplied solely from Canadian sources; it therefore is to be juxtaposed with what he says has been the Canadian reality of a continentalist policy where there is considerable two-way trade in fuels between Canada and the U.S.

McDougall's book is a relatively impartial treatment of the controversial subject in that he attributes this continental trade pattern to straightforward economics, to "the fundamental condition of geography translated into transportation costs". In short, the basic factor is the long distances between Canadian fuel supplies and domestic markets compounded by the close proximity between American fuel markets and Canadian supplies and vice versa. McDougall directly rejects the popular conspiracy theory that attributes continental trade in fuels to foreign ownership in the fuel industry:

"The analysis presented in this study lends no support to the tirelessly repeated view that Canadian energy policy ... has been and is almost exclusively the result of the high level of foreign control in the oil and gas industry". (p. 160)

He goes on to state that the most important factor affecting the policies of oil and gas companies is not whether they are foreign owned but that they are producers. McDougall then cites PetroCanada's involvement in export-oriented projects as further proof of this, but he also argues it is an example of how public ownership has no advantage over regulation as a method of directing the efforts of industry toward stated national objectives.

### Historical Overview

1. McDougall provides an overview of coal policy in Canada, emphasizing how, for economic reasons, Central Canadian consumers preferred to purchase close and less expensive U.S. coal rather than more distant and higher cost Maritime or Alberta coal. Similarly, Canadian coal producers sought to minimize transportation tariffs by exporting into nearby U.S. markets.
2. The same general situation usually divided the interests of consumers and producers of crude oil and natural gas in Canada. In the case of oil and gas, the issue of pipeline size and routes were also involved, as economics of scale and "continentalists" suggested the need for routing pipelines partially through the U.S. to increase exports and thus reduce tariffs and financing



to Canadians. The Canadian government implemented an export-oriented oil policy prior to 1973. These exports increase Canada's future dependence on higher cost frontier reserves.

3. In the case of both coal and oil/gas, only threats of supply disruption, and/or higher prices of imported fuel supplies, and the loss of export markets triggered debate on national policy. Otherwise, Canadian consumers in Central Canada, being more interested in price than national self-sufficiency, wanted to purchase cheaper foreign supplies and Canadian producers looked to Canadian markets only when foreign markets became less available or attractive.

### Canadian Energy Policy in the Seventies

1. The Arab oil embargo in 1973 once more focused the Canadian energy debate on the matter of self-sufficiency. Although the federal government committed itself to regulated oil prices and to building pipelines to expand Canadian consumption of Canadian fuels, these measures succeeded in extending the Canadian market "only marginally".
2. As in the past, the debate over self-sufficiency became a question of security of supply versus energy prices. However, in the 1970's and 1980's it is no longer a case of Canadian fuel competing against cheap imports but rather a case of how far the producing provinces are prepared to go to supply Canadian markets at below market values. Central Canada supports self-sufficiency only if it is achieved at prices below world level while the producing provinces continue to push for higher prices in order to finance exploration.

### National Energy Policy

1. Although hailed as a major step towards economic nationalism, there are "indications that the NEP would not necessarily result in the expansion of Canadian trade in fuel to the exclusion of continental trade. Indeed the NEP's implementation will likely involve an intensification of Canadian-American cooperation in the energy field". (p. 149) McDougall feels that the NEP has been silent on the key issue of how to transport Canadian fuel supplies to domestic markets without the aid of exports. In this sense, McDougall says the NEP does not address the question of how specifically to achieve its stated goal of self-sufficiency, and it has left the door open for oil and gas exports to the U.S., if for no other reason than the traditional one of defraying part of the enormous cost" of bringing frontier oil and gas to market". (p. 149)
2. Another NEP shortcoming is its continued allowance of exports of favourably located gas supplies while relying on expensive public subsidization of expensive exploration programs in remote frontier regions in order to increase Canada's reserves.
3. Furthermore, the government approval of the "pre-build" section of the Alaska Highway Pipeline would seem to indicate that despite the NEP, the transportation projects required to bring Canadian supplies to Canadian markets would continue to depend upon the policies of the American government for their timing and the terms and conditions under which they would operate". (p. 151)



## Factors Influencing Energy Policy in Canada

McDougall concludes his analysis with a review of the factors most influential in Canadian energy policy.

### 1. Geographic Environment

He argues that, for reasons of geographic proximity, continental trade in fuels has been, and probably will continue to be more economically sensible and "natural" for Canadians than purely domestic trade. The reality of Canadian fuel policy is that Canada has never been self-sufficient in fuels, that while some Canadians have favoured self-sufficiency, others have always opposed it. Those who support it only do so to the extent that they can find someone else to pay for it. McDougall adds that a related political reality for Canadians is therefore the immense influence exerted by the U.S., such that many of Canada's fuel policies have simply been in response to American ones.

### 2. Distribution of Domestic Political Power in Canada

Another political reality is that the concentration of population, industry and wealth in central Canada has made it the dominant force in determining energy policy. However, McDougall also claims the less populous producing provinces have from time to time exercised "disproportionate power" over federal policy at the expense of Central Canada (i.e. During the sixties Ontario was forced to use more expensive Alberta oil rather than imports.)

### 3. Ideas

Public debates over Canada's fuel policies have always reflected the dominant ideas or concerns current at the time. These have involved such issues as national unity, independence, regionalism, nation-building and U.S.-Canadian relations. The corporate sector therefore should take note that Canadian fuels policy is almost never addressed exclusively in economic or efficiency terms.

But McDougall gives special emphasis to the influence of the continentalist idea that "Canada prospers when the continent works as one country. Self-evident or not, this proposition seems to have governed Canadian thinking about fuels" (p. 166) and worked against Canadians endeavouring to achieve absolute self-sufficiency.

### 4. Institutions and Processes

McDougall claims his study indicates that it is not so much the specific federal division of powers that has had the greatest influence over fuels policy but Canada's regional nature and the resulting conflicts of interest (between centre and peripheries) over the question of the proper disposition of Canada's energy supplies.

He also claims Canada's major political parties also have not exerted much independent influence on policy, because both Parties must essentially conform to the economic interests of Central Canada.



Conclusion

McDougall's history of fuel policy points out once again the pragmatic approach Canadians tend to have towards national policy. His study shows that time and again the practical consideration of supplying Canada's fuel needs from the closest, cheapest source has overridden more dogmatic policies based on absolute national self-sufficiency or economic nationalism.

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SECTION 4



## GOVERNMENT IN BUSINESS

MARSHA GORDON, C.D. HOWE INSTITUTE, 1981

- o Canadian governments' political parties, both federal and provincial, have long considered state enterprise a legitimate instrument of public policy; however, in recent years there has been a dramatic increase in the numbers and scope of these enterprises. Ms. Gordon's book attempts to give a broad overview of state enterprises in Canada, and touches on the fundamental issues they raise; she also offers some recommendations for the future.

### I. DEFINITION & RANGE OF STATE ENTERPRISE

- o In this study Gordon uses the term "state enterprise" to encompass the commercial undertakings of both levels of government. Generally, she is referring to those government enterprises which operate in the marketplace competing with the private sector and which use a corporate form of organization.
- o These companies exist on both the federal and provincial level with the federal government more involved in the broader areas of transportation, communication, energy, and technology; the provincial governments have tended to concentrate on utilities and regional development.
- o In the late 1970's, the office of the Comptroller General of Canada listed 464 companies in which the federal government had interest. (Of this number the federal government had full or part ownership of 56, the rest are subsidiaries and associated companies.) In addition, Statistics Canada lists 107 provincially owned enterprises.
- o These enterprises differ from their counterparts in the private sector in several important ways:
  - the bottom line for public sector companies is not usually maximum profitability, but the fulfillment of public policy goals;
  - they are in a favoured position because they have access to capital, often receive favourable regulatory treatment and are exempt from paying income taxes;
  - unlike private sector companies, ultimate power for policy formulation does not rest in the board of directors but in government.



## II. WHY CANADIAN GOVERNMENTS ARE "IN BUSINESS"

### 1. Control of Natural Monopolies

- o Natural monopolies (or public utilities) includes electricity, telephone, water, public transit and to a lesser extent natural gas. (Until recently, natural gas was not seen by most Canadians as an important source of energy and therefore has escaped large-scale public ownership.)
- o There is an emotionally-based public belief in the "rightness" of public ownership of utilities. They are seen as "essential services" which should be widely distributed at reasonable and uniform prices by government owned companies rather than entrusted to the private sector and the free market.
- o By 1974, 70% of all electricity generated in Canada originated in government-owned utilities and the rest was subject to government regulation.
- o In many cases public utilities have extended services faster, to a wider area and at more uniform rates than the private sector could have. However, providing these services (with rates often "at cost") has burdened many governments with debt.

### 2. Nation Building (Patriotism)

- o Canada has always struggled to find ways to integrate its scattered and diverse population and offer domestic alternatives to what the U.S. could offer.
- o Transcontinental transportation and communications were key areas of concern, with the government first becoming a railway builder through CN, a broadcaster through the CBC and an air carrier through Air Canada. These were all areas in which the private sector was seen as not responding to the needs of the people.
- o In later years foreign ownership has become a major issue and in order to gain greater domestic control over several key sectors of the economy, the government has formed such enterprises as Petro-Canada and the Canadian Development Corporation.

### 3. Regional Development - Province-Building

- o One of Canada's more persistent problems has been regional economic disparity. Governments, especially on the provincial level, use state enterprise as a way of promoting resource development and secondary industry in their respective regions.



- o The most common form of company used is the publicly owned development corporation (i.e., Alberta Opportunity Company, B.C. Development Corp.); by the mid-seventies every province had at least one such company.
- o Development corporations, by their very definition, are heavily policy oriented, with their objectives ranging from economic development to environmental protection and language rights. Consequently, profitability goals are often compromised.
- o Of all forms of government enterprises, those formed for the purpose of regional development are the most prone to failure. The basic reason for these failures appears to be an unwillingness to face the economic realities that explain the reluctance of private companies to enter these areas. Sometimes these enterprises have played a useful role in bringing industry to a disadvantaged region, but too often the costs have been unnecessarily large. "Millions of dollars of taxpayers' money wasted on politically inspired, but poorly researched projects."
- o Provincial governments in the direct line of political fire often find it difficult to refuse aid to a region. However, Gordon feels the federal government should have tougher standards in determining which of these regional schemes it supports.

#### 4. Bailouts

- o These "rescue operations" by governments generally come about for a variety of reasons:
  - the government has already loaned the industry so much money that it must step in to protect its "investment";
  - government feels it must protect the jobs involved (this is especially true in single-industry regions);
  - the industry is a key part of the government's regional or economic development plans;
  - government wants to avoid being held accountable for the human suffering and dislocation which inevitably follows the shut down of a major industry.
- o Bailouts suffer from a high rate of failure also and although they tend to be politically popular, there are some long-term consequences:
  - Bailouts tend to "subvert" natural market forces and work against a dynamic economy which naturally generates failures as well as successes.



- They lead to a misallocation of economic resources. Capital and labour continue to be tied up in an unproductive activity at the expense of new and more productive ones.
- The government often ends up propping up a "sunset" industry made obsolete by changing markets and new technologies.
- State backing of outdated industries makes them dependent on government aid to survive and sets up a pattern that is difficult to break.
- o There is a tendency for government ownership to lead to even more inefficiency in the industry because the emphasis government places on social and policy goals tends to blur corporate goals and leads workers to believe that efficiency is not important because the government will not allow the company to fail.

#### 5. Pioneer Ventures

- o This type of intervention arises from the financial limitations of the Canadian private sector to take on high risk projects.
- o Governments have been fairly successful in taking on these risks, developing new technologies (e.g., Atomic Energy of Canada) and promoting oil exploration in the high Arctic (e.g., Panarctic and now Petro-Can).
- o Gordon agrees that these ventures can be fully justified; however, she believes that after such projects are successfully launched, they should be sold to the private sector, at least in part.

#### 6. Collection of Economic Rent

- o Developments in recent years have brought with them the problem of how governments could best collect their share of the economic rent accruing to resource industries due to high profits. One way is through increased royalties and taxes, etc. and the other way was direct involvement in resource industries through state enterprise.
- o Governments have been distrustful of the multinational companies which dominate the resource area. They felt that the large integrated companies with their control over all aspects of their business from production through marketing were in a position to deprive the government of the economic rent which was their due.
- o Governments also feel that MNC's are in a position to "play off" the provinces against one another to their advantage. If the royalty or tax structure is not to their liking in one province there is the inherent threat that the company will concentrate its operations in a region more favourable to their needs.



- o Gordon feels that use of government enterprise to collect economic rents is a dubious success at best and that it is preferable to fine tune the existing rent collection mechanisms rather than enlarge state enterprises.
- o She recommends that one solution might be a combination of an appropriate tax system with a leasing system that takes full advantage of the competition among private firms.

### III. PETRO-CANADA

- o Petro-Canada was formed in response to the concerns triggered by the OPEC crisis of the early seventies. The federal government felt that there were serious structural weaknesses in the oil and gas sector and hoped that Petro-Can would help them address these problems as well as provide them with a "window on the industry".

#### 1. Its National Role

- o No other government corporation seems to have been given as important a role in policy making as Petro-Can. Its bottom line is not profitability but the "national interest".
- o It was given a broad mandate in the energy field and it has become involved in high risk frontier exploration, Canadianization, and R & D. Its lack of concern for the balance sheet has allowed it to focus on high-risk projects. It is Petro-Canada's view that to "invest in activities which are not profitable commercially is a legitimate public function in pursuit of social goals".

#### 2. Its International Role

- o The Canadian government felt it was better not to rely solely on the pooling arrangements of the multinationals for its supply of imported oil. (The book frequently refers to the alleged "Exxon diversion".)
- o Petro-Can was to be the vehicle by which Canada could enter into long-term contracts with other oil producing countries on her own and also participate in oil exploration abroad.
- o Since many of the oil exporting countries have their own national oil companies and prefer to deal directly with other governments, it was felt that Petro-Can could involve Canadian independents in some of its foreign deals and give them international experience they might otherwise not get.



### 3. Its Problems

- o Petro-Can's very structure causes difficulties. Government appoints the board of directors, issues policy directives and maintains a close liaison with management. Because of this high degree of government control, the board fails to attract good quality members, especially from the oil sector, and is therefore weak. Also, government interference in management undermines the board's ability to control corporate operations and this, combined with the emphasis on policy rather than profitability, raises concerns about the company's long term efficiency and effectiveness.
- o Petro-Canada has not enjoyed good relations with the rest of the oil industry because of its "favoured position" (i.e., through government provisions which allow it favoured access to frontier lands, the back-in clause; and its privileged access to capital.)
- o Many critics, especially the Conservative Party, have favoured privatization of the company. However, Gordon concedes that this would raise as many problems as it solves:
  - (a) it would jeopardize Canada's self-sufficiency goals because, as even a partially private company, Petro-Can could not justify its high-risk ventures to its shareholders;
  - (b) it would weaken its international position (i.e., Petro-Can would become just another oil company in the eyes of the world);
  - (c) it would take away the government's window on the industry;
  - (d) since the government would feel obligated to pick up the slack left by a privatized Petro-Canada in the frontier exploration, there would not be any advantage to the taxpayer.
- o Gordon believes that there would be real advantages in making the board of Petro-Canada more independent since it would help attract more high-caliber members from the oil sector and help improve their relationship with the rest of the industry. On the corporate side, a stronger board would increase the efficiency of the corporation, protect the company from undue political interference and help control corporate activities and expenditures.

### IV. FUNDAMENTAL ISSUES AND PROBLEMS OF STATE ENTERPRISE

- o Gordon states that the fundamental problem is that "governments are intervening increasingly in the economy without having a firm basis for evaluating the impact of this intervention on the health and vitality of the overall economy".



## 1. Difficulties in Managing a State Enterprise

- o Government enterprises must respond both to public policy and commercial objectives. However, these objectives are often ill-defined and at odds with one another, thus reducing corporate effectiveness and making it hard to evaluate the management of the company.
- o The policy function of the state enterprise causes problems for a number of reasons:
  - the emphasis on policy over profitability means that there is lack of a clear benchmark by which to evaluate the company's performance;
  - also, relegating profitability to a secondary role acts as a signal to the workers that efficiency isn't important;
  - because of political sensitivities, policy decisions tend to be centralized at the top or in some extreme cases in the government itself. This tends to overburden top management and undermine the initiative of those below.
- o Most state enterprises are created by legislation and their mandates tend to be too general. (The recently formed Canadian Investment Development Corporation is a good example of this.)

## 2. Problem of Control and Accountability

- o Governments have the power to issue policy directives to their companies at any time, overriding the management of the company. Such directives can become a kind of "blunt instrument" used against the company.
- o Unlike the private sector where power rests in the board of directors, in state enterprise it rests with the government. Governments can use their power over the board to appoint CEO's, directors, etc. who are in agreement with government policy - in effect "yes men". It can also use the boards of its various enterprises as patronage to reward party faithful which further weakens the board's caliber and also undermines another function of boards - that of long-term guidance for the company, since the members come and go with every government change.
- o The weakness of the boards of some state enterprises has allowed government ministers and bureaucrats considerable opportunity to exert influence on the management and decision-making of the company, sometimes leading to the rubber-stamping of questionable projects.



- o Supposedly, the government and Parliament are responsible for the financial control and accountability of the enterprises under them. In practice, the budgets and operating plans prepared by the enterprises for submission to the government are very general in nature and often seek to conceal massive cost overruns and wastefulness from public scrutiny.
  - o Another weakness has been the annual report. On the whole their quality and usefulness is questionable and they have been criticized for their lack of clearly stated corporate plans and long-term goals.
  - o Many elected representatives, especially those in opposition, complain about the refusal of many companies to provide information.
3. Problem of Government in the Marketplace
- o Governments tend to intervene to perpetuate the life of inefficient and failing industries, diverting the flow of capital and labour away from new and more productive activities.
  - o Government enterprises subordinate commercial considerations in favor of policy goals and they often undertake projects in defiance of market signals and which are shunned by the private sector. (Often these projects subsequently fail.)
  - o There is a danger that state enterprises which engage in noncommercial or inefficient ventures or prop-up antiquated industries are impeding natural market adjustments and the development of more efficient industries. The cost to the public of lost opportunities is difficult to calculate.
  - o Finally, state enterprises tend to be slow to adapt to changing economic circumstances, again at the cost of the taxpayers' dollars. Private sector companies have built-in adjustment mechanisms triggered by changes in the marketplace and in profitability which public sector enterprise unfortunately lacks.
4. Problem of Intra-Industry Tensions
- o Tensions usually occur when private sector companies feel that their public sector counterparts have gained an unfair competitive advantage owing to their special ownership status.

## V. RECOMMENDATIONS AND CONCLUSIONS

- o Although state enterprises have sometimes proven to be an indispensable policy tool for government, often their effectiveness has been undermined by "inadequate examination of facts, confused and even obsolete objectives, partisan appointments and poor accounting regimes".



1. Establish Clear Corporate Mandates

- o It is imperative that corporate mandates clearly define corporate objectives and the responsibilities of the board of directors and the management. Having corporate objectives clearly spelled out would improve company performance, restrain undue government interference, and encourage government and management to work together in a consistent and mutually-supportive manner.
- o There should be a clear separation of corporate activities from policy oriented activities. When the government wants a specific policy carried out by its company it should issue a written directive to the board of directors to this effect and the cost of the activity should be subsidized by the Consolidated Revenue Fund. In this way, the public is made aware of who ordered the activity, why it is being done, and what it is costing the taxpayer.

2. Strengthen the Role of the Board of Directors

- o Board of Directors should be responsible for corporate operations and management performance.
- o Board should be accountable to the government for corporate performance.
- o Corporate mandate should clearly define the responsibilities of the board and give it the power to hire the chief executive officer, thereby clarifying the lines of accountability.

3. Improve Corporate Financial Accountability

- o State enterprises must improve the way in which they report their financial activities. Corporate capital budgets should be tabled at the same time as the Estimates and should include an accounting of the outside borrowings of state enterprises. The quality of their annual reports should be upgraded and include a summary of longer-term corporate plans.

4. Establish Obligatory Review Process

- o Government should act on the recommendation of the Royal Commission on Financial Management and Accountability that a review of each corporation should take place not less than once every ten years.

O. Blakeney  
March 25, 1983  
0583E



# MEMORANDUM

EXTERNAL AFFAIRS DEPARTMENT

March 8, 1982

TO: R.B. PETERSON V. ALLAN W.D. MOTHERSILL  
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 D.C. WOOD

FROM: G.E. KRUK

Attached, for your future reference, is a brief overview along with a more detailed summary of James Gillies' recent book, Where Business Fails. In this book, Gillies (who was a Progressive Conservative MP and subsequently a senior policy advisor within the PMO to PM Clark) describes the principal changes that have occurred in the federal government's policy-making process and the implications of these changes for the effectiveness of the Canadian corporate sector's traditional approach to government relations. He then goes on to recommend that the business community adopt a significantly different strategy for attempting to influence government policy-making. Gillies' description of the operation and powers of key government actors (such as the Cabinet Committees, the Privy Council Office and the Prime Minister's Office) and the type of public servants who dominate them is particularly useful. Also attached is another interesting government relations article on "Getting Your Way with a Bureaucrat" (Sept. 1980).

*Gerry Kruk*

G.E. KRUK

GK/ob

attach.

cc

R.E. LANDRY K.P. POWELL  
 D.H. MACALLAN J.A. O'CONNOR  
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Where Business Fails by James Gillies

(Institute for Research on Public Policy, 1981)

Thesis Summary

Gillies' book is an instructive, very readable analysis of (a) the important changes that have occurred during the Trudeau years in the processes and personnel that distinguishes policy making in the federal government and (b) the implications of these changes for government relations strategies pursued by the corporate sector.

In brief, Gillies' argument is that the pre 1970s policy process, dominated by a small number of powerful yet accessible cabinet ministers and deputy ministers who managed their departments in an independent fashion has been replaced by a more complex, structured system of policy making and priority setting which is characterized by a network of cabinet committees supported by large, influential central agencies such as the Privy Council Office (PCO) and the Prime Minister's Office (PMO). In this new system, there are still important "movers and shakers." However, these key political actors are no longer philosophically sympathetic cabinet ministers who share the basic values and objectives of the business community. Instead, the contemporary cabinet operates in a more collective fashion wherein ministers have less opportunity for strong, independent action and must instead share the policy-making function for even his own department with not only other ministers but also with the appointed senior advisors of the central agencies. Moreover, most of these government players share the widespread suspicion if not hostility towards the private corporate sector that has emerged in Canada over the past fifteen years.

Accordingly, in this political environment, if corporate leaders are to effectively influence public policy making, they must abandon the traditional government relations strategy of relying upon periodic, low key personal dialogue on specific issues with senior Cabinet & Deputy Ministers (i.e. elite accommodation) in favour of a much more politically aggressive program of inputting more professionally and frequently to a wider range of government institutions as well as actually participating directly in the adversarial political process, including elective bodies.

G.E. Kruk

March 8, 1982



Where Business Fails by James Gillies

(IRPP 1981)

Detailed Synopsis

1. An effective government relations strategy must be based on a recognition that government intervention in Canada enjoys substantial public support. Big government hasn't been the result of conspiracies by power-mad or dogmatically ideological politicians and public servants but rather a pragmatic response to public demands for government action to solve practical nation-building problems. These national problems requiring State action are largely the result of Canada's large geography vs small population and perceived economic, cultural and political threats from the U.S. The value and attitudinal changes of the 1960s resulted in a drop in corporate credibility and popularity, politicized the business world and led to even more government intrusions in economic and social life.
2. This popular support for government makes Canada significantly different politically from the U.S. such that many aspects of the government-business relationship in America (which numerous Canadian corporate leaders have personally experienced and admire) are not transferable to the different circumstances of Canada.
3. However, at this time it appears that the magnitude of government intervention has become so great that the performance of the Canadian economy and the basic role of private corporations in that economy is being undermined, without a compensating resolution of the major national and regional problems which originally triggered government intervention. Moreover, this weakening in the economy's performance may lead to even more "pragmatic," government intervention and a further deterioration in the corporate sector's relations with government and its publics.
4. This expansion of government interference has occurred as well despite corporate acceptance of a higher degree of social responsibility.
5. The ineffectiveness of traditional government relations strategies is seen in the fact that government intervention has dramatically escalated despite corporate efforts to limit it. This traditional elite accommodation strategy essentially depends upon private diplomatic dialogue with senior ministers on specific issues as they arise -- the "old boy" network.



6. However, this strategy of mutual accommodation and intimate issue by issue contact is based on two erroneous assumptions. One is the belief that the trust and similarity of values that facilitated dealings between government and business in the 1950s and early 1960s is still present, such that it is still possible to work out "a social contract" with government that will respect the corporate role in the economy. The second erroneous premise, upon which the issue by issue strategy is based, is that on major policy questions the government works in a bottom-up fashion and that timely intervention with "hard information" at the senior bureaucratic or ministerial level will stop or significantly amend unwanted legislation. Unfortunately the reality is quite different: business and the key government policy makers of today do not share common values and outlooks; and major, controversial policy issues, are often the calculated top down strategies of senior political advisers.
7. Despite the setbacks of recent years, most Canadian CEO's continue to prefer the traditional strategy of low key, private contacts with senior government officials.\*

\* CEO's tend to attribute the disappointing track record of the traditional government relations strategy to the following specific problems:

- (a) A fundamental lack of understanding and sympathy for private enterprise system by senior government officials;
- (b) Lack of business credibility; when business puts forth its case, it's seen as forwarding an unworthy vested interest;
- (c) Insufficient business sector understanding of the political process and the diverse pressures to which politicians must (appear to) respond;
- (d) Insufficient understanding by businessmen of the organization, process and power distribution within government institutions;
- (e) The antiquated management techniques of government and its insensitivity to the "bottom line."

Ironically, CEO's sensitivity to these factors indicate they have some awareness of the changed circumstances in government-business relations but they are still hesitant to make a fundamental change in their approach to government and public policy issues.



8. Some of the key changes in the operation of the executive branch of the Canadian government to which corporations must adapt include the following:

- o Gone is the period of strong independent ministers and deputies (who often had technical expertise in the policy area of their department) and a small number of very powerful government departments (like Finance) which worked through private, informal channels with like-minded business "clients."
- o Instead we now have a Cabinet Committee system which reduces the power and autonomy of individual ministers and departments. These Committees and the Central Agencies dominate what is now a more centralized and politicized process of policy definition and coordination.
- o The tremendous influence of the PCO (and its clerk, Michael Pitfield) over government policy making derives from its major responsibilities: preparing the agendas of Cabinet & Cabinet Committees, coordinating and communicating the results of their meetings, briefing the PM, influencing major appointments, coordinating federal-provincial relations, ensuring departmental conformity with government goals and generally maintaining an overview of government policies and programs and a continuing sense of the cutting edge of national issues and problems which, in the view of the PCO, require the attention of cabinet.
- o The power of the PCO means federal policy-making is now largely dominated by a new breed of public servant: officials who seldom have private sector experience or sympathies, who are uninclined to consult external groups (especially business) and who tend to be generalists and broad conceptual thinkers who strongly believe in activist government. Moreover, the PCO ensures that line departments are also led by similar "careerist" deputies who are more inclined to accommodate their departments to the central thrust of government policy rather than to the preferences and needs of their department's external client groups.
- o Despite the highly structured Cabinet Committee and PCO system, many major policy decisions are not developed through or vetted by this highly rationalist, institutionalized system but, like the 1980 National Energy Program, are instead based primarily on "top down" policy making processes dominated by the most senior political advisers of the government. (These policies are adopted more because they are "good politics" rather than rational and appropriate responses to real problems.)



- o Accordingly, the other important central agency is the PMO whose principal objective is to provide political advice to the PM on major issues of policy and priorities, and on parliamentary and electoral strategy. PMO officials tend to be most influential when the PM wishes to have advice independent to that which he may receive from a department and when the track record of the PM's political advisers is good as manifested by successful elections (ie. Feb. 1980). Both of these factors contribute to the influence of Trudeau's Principal Secretaries (ie. Coutts and Axworthy). Especially as PMO officials are more loosely organized and personally more accessible than PCO officials, corporate leaders should make special efforts to establish contact with them.
- 9. Therefore, given the shift in the locus of power within government, corporate leaders can no longer alter the general thrust of major government policy through elite accommodation with senior ministers or bureaucrats. If the corporate sector is to play a significant role in the economy in the future, its legitimacy and contribution must be aggressively defended and promoted and public efforts made to mobilize a favourable political constituency with the use of credible policy positions that are sensitive to the public interest.
- 10. The best bet for private sector influence over critical policy areas therefore lies in increased direct political action by businessmen. Unless corporate management participates in policy making through election to government and pro-active but constructive participation in the adversarial political process (including public debates, advocacy advertising and educational programs) they will continue to be politically weak spectators on the "outside" of the process by which the "public interest" is defined in Canada and policy made. "Business, like all groups in society, will have to make its case in the arena of public opinion -- not in the ministers' offices."

G.E. Kruk

March 8, 1982



# Getting your way with a bureaucrat

Show respect. Be patient. Take him seriously. Sounds easy, but a lot of businessmen don't know how to get to first base

BY LARRY SMITH

**T**here's one experience that's common to senior managers in all industries—the increasing amount of time they must spend dealing with governments and civil servants. Company presidents, surveyed recently by the University of Western Ontario's business school, reported that the biggest change in their jobs over the past decade is the increase in the amount of time they must devote to identifying and then adjusting to the effects of government regulations and legislation. So crucial has this task become that, as John Labatt Ltd. president Peter Widdrington recently remarked, middle managers who lack experience in handling government-related problems are “not promotable.”

The need for business to be able to defend its interests before the civil service has never been greater. But many business representatives not only fail to advance their causes, but actually antagonize the very persons they wish to influence. The ineptness that many lobbyists bring to their relationships with the civil service arises from a single source—their failure to understand the bureaucracy's aims and the way it works. The bureaucracy is not, as too many business people tend to regard it, some inscrutable mandarin out to thwart the legitimate ends of the free-enterprise system. It is a collection of, for the most part, reasonably principled and reasonably intelligent civil servants who can be swayed by reasonable discourse. The following guidelines explain how the civil ser-

vice works, and why. If you heed them, the odds are a lot better that the next bureaucrat you encounter will wind up on your side.

**1** *Recognize that the federal bureaucracy is a collection of people, and that defending one's interests before a civil servant is first an exercise in human relationships.*

More than one business group has hired a battery of skilled consultants to construct a flawlessly logical presentation that is then deposited at the door of some startled bureaucrat. The group and its lobbyist assume that the compelling logic of the argument will win the day. But a disembodied report, associated with no person the civil servant can relate to or feel obligated to, is as easy to ignore as junk mail. The situation is altogether different when a brief is presented by someone the civil servant knows and may already have cooperated with. That circumstance alone guarantees a reading, which is the first, most critical step in advancing your case.

**2** *Recognize that the federal bureaucracy is a vast information-processing machine, churning out hundreds upon hundreds of major studies and reports.*

Detailed background studies are essential for an efficient government that is more than crisis-oriented. When you are contacted by a civil servant for information or assistance in a study, it's useful to cooperate. It allows you to build a relationship in advance of need. One civil servant conducting a background study on a certain industry needed information that, although in the public domain, required laborious collection. Realizing that these data would have been

collected by the industry's trade association, he called, explained his purpose and requested the information. He was refused, abruptly. And what did this refusal accomplish? Because the information in question was still obtainable for the report, the only result was one very irritated civil servant. And since this civil servant was a specialist in the industry he was studying, the next time the trade association might have occasion to lobby Ottawa, this same civil servant would become involved—and he would remember. That was a nice bit of work by the association, one of whose functions, presumably, was public and government relations.

Some businesses reflexively react to any sign of attention from the federal bureaucracy with a lock-up-the-silverware-and-hide-the-kids attitude. This is completely counterproductive. Some studies are conducted with a view to granting an industry certain advantages, in which case, lack of cooperation can be suicidal. Even those studies that are pure background present an opportunity to explain the industry position advantageously. A favorable report in place will be very useful if, at some future time, the industry wishes to plead a special case. Of course, if the study is preparatory to action disadvantageous to the industry, cooperation is critical in order to obtain enough information to counter the adverse implications.

The other reaction to avoid when you're approached by a civil servant for information is outright fright. Some business people lose their wits when they see the awesome power of the Government of Canada pointed in their direction. A civil servant who notices that his simple request has

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thrown an entire executive suite into panic will surely ask himself what these people have been up to.

Business attitudes such as these have had a predictable result. Many civil servants now go to considerable lengths to obscure the nature and scope of their studies. It is a naturally defensive reaction, one that hardly improves relations between business and government.

**3** *Recognize that the federal bureaucracy is incapable of responding quickly.*

Except in certifiable cases of national emergency, patience is your most reliable ally in building your case before the bureaucracy. Human relationships always require patient nurturing, and most industry dealings with government necessitate the building of many such relationships. Civil servants must also consult a wide range of colleagues and superiors. While the consultation process is undoubtedly abused by the incompetent or timid bureaucrat who seeks to evade responsibility or action, there are two good reasons for it. First, it is intended to prevent individual civil servants from exercising arbitrary or irresponsible authority; second, it attempts to ensure that all parties affected have an opportunity to address the issue. It is astonishing that many business representatives treat the civil servant as if he were the agent of a tinpot dictator; or, alternatively, they act as if they wish he were.

Influencing important bureaucratic decisions demands a long lead time. The worst mistake is to imply to a civil servant that he could hurry if he really wanted to. That suggestion merely reveals your ignorance and jeopardizes any relationship you may have built. In dealing with bureaucrats one needs to cultivate a stoic, almost oriental, patience. Not for nothing are they called mandarins, the Chinese civil servants of old.

**4** *Recognize that the federal bureaucracy is so complex that there is no single channel of authority for any matter whatsoever.*

It is the most common complaint in Ottawa: I cannot find the right person to talk to; everyone refers me to someone else. But it is a mistake to be looking for a single, appropriate civil servant who will be able to answer all your questions. Such a person does not exist. In fact, it is a mistake to

take the absence of a single channel of responsibility as a vice; it is an outright virtue. If you are lobbying for a cause down a single pathway, a turn-down becomes a rejection without recourse or appeal. In the more tightly structured private sector, one imbecile often has the power to bring an entire line of activity to a complete halt. But in the civil service, where responsibility is diffused, any particular refusal need be only a roadblock around which it is possible to manoeuvre. The likelihood of ultimate success grows in direct proportion to the number of avenues of pursuit.

Instead of searching for the white knight who is going to lead him

**Never state your area of concern precisely. The idea is to get as many civil servants as possible involved in your problem**

through the dark labyrinths of the mandarin state, the effective lobbyist seeks referrals from one civil servant to another. The real challenge is to get each of them involved in your problem. Some civil servants, mistakenly believing that if the lobbyist states his problem precisely enough they can refer him to the right person, actually try to do so. Therefore, never state your area of concern precisely; use the most general, ambiguous terms possible without being incoherent. That forces the civil servant to generate a number of alternative referrals in the hope that one of them meets your needs. You, of course, want all of them.

Second, in your initial conversation with any civil servant, find out exactly what he does. Then try to find something about your problem that fits his bailiwick. Consider, for example, a company seeking support to make an investment in new plant. Each of the following aspects of the question involves *different* civil ser-

vants: job creation in general; job creation for a specific region; job creation for a particular skill; job creation for a minority; export stimulation; import substitution; improvement in the competitiveness of the market; enhancement of research and development; environmental improvement; and national unity. And that is a short list, any aspect of which may make the critical difference for obtaining a favorable hearing. Broader lobbying causes, of course, involve an even wider range of possibilities.

When you are dealing with a complex organization, it is futile to try to impose simplicity where none exists. But handled knowledgeably, the very complexity of the bureaucracy can work to your advantage.

**5** *Recognize that most civil servants are reasonably competent and conscientious.*

To treat them otherwise is to abandon all hope of influencing them. Flattery can be just as insulting as rudeness: the typical civil servant is smart enough to know when he or she is being conned. Then there's the lobbyist who patronizes the civil servant by launching into a detailed lecture on the realities of the world outside Fat City, a lecture most civil servants have heard a dozen times. Next comes the lobbyist who attempts to explain his industry in words of one syllable or less. Many civil servants understand that, as outsiders, they may well lack important information, but the lobbyist's condescension has lost him the opportunity to communicate useful information to what might have been a receptive mind. And finally there's the lobbyist who is so contemptuous of the intelligence of the civil servant that, by accident or design, he provides misinformation that any regular reader of the business press would spot at once. Remember that civil servants read voraciously. So if your company reports record profits, please do not tell a civil servant a week later that times are tough in your business, unless you are prepared to explain that those profits were an anomaly. If indeed they were.

A civil servant, as an employee of the Crown, the sovereign representative of the people, may well take your contempt as an insult to the people of Canada, an insult that demands redress. While the arbitrary power of bureaucrats is vastly overrated, right-



eous indignation by a mandarin has caused empires to tremble. And the more conscientious the civil servant, the more likely that attitude will prevail.

**6** *Recognize that the federal bureaucracy is charged with defending the broad public interest.*

The deep cynicism of many civil servants is the inevitable result of hearing what seems to them to be an endless series of blatantly self-serving requests. Far too many approaches to civil servants speak only of narrow benefits and blithely assume that what's good for one industry or company is good for the nation. Benefit to the public can be the factor that distinguishes your request from the others and increases the likelihood of its acceptance. Elementary, you'd think. Yet some business persons still argue for special privileges in spite of overwhelming evidence that their proposals will actively harm the public interest. Others downplay the public benefit under the mistaken notion that their pitch would be taken as an obviously insincere attempt at altruism.

Some lobbyists make a great tactical mistake by presenting a solely self-serving proposal in the expectation that the civil servant will demand concessions in the public's favor and that, following a process of adversary negotiation, an acceptable compromise will be struck. But it is unwise to create an adversary relationship where one need not have existed. This manoeuvre merely reinforces the civil servant's impression of business as socially irresponsible.

It is far more effective to approach the civil servant with an appeal that clearly recognizes and describes the self-interested advantages and also describes in detail the widest range of public benefit. By arguing the private and public advantages simultaneously, you are telling the civil servant that your proposal has been thoughtfully structured to maximize the social benefits, as is appropriate for all suggestions that come before a democratic government. This attitude of mutual understanding creates the kind of atmosphere in which your idea has the best chance of taking a firm root.

**7** *Recognize that civil servants are human, and susceptible to the most basic bargaining technique.*

The art of persuading someone to undertake a course of action you desire rests on an old canon: convince

the other person that it is to his advantage to do so. Appeal to the public interest of the civil servant, because he is charged to defend it and often does. But clinch your argument by offering personal advantage. Of course, this offer cannot involve the promise of material compensation, which is illegal. There are personal inducements that are both legitimate and legal, although few lobbyists employ them. And that makes them all the more effective.

The best inducement helps advance a civil servant's career; there are several ways to do this. First, you can cooperate fully with his request for data. In Ottawa, information is power, and a civil servant who can demonstrate that he has it and that he has the skill to get it has a distinct career advantage. So offer him as much information as you reasonably can; invite him to interview your executives; compile data if they're not readily available. In short, be helpful.

It's also possible to tailor your proposal to the government in such a way that it allows the civil servant to espouse a "cause" that will help him advance his career. In order to be promoted, he must distinguish himself from the crowd in a fashion legitimate to the bureaucracy. And what better for a bureaucrat than to discover the need for a new rule, a new organizational procedure or a new study? Therefore, the astute lobbyist tries to develop some aspect of his problem that implies a broader bureaucratic response. For example, if you are arguing for assistance for a specific company, you might also point out that the company needs help because everyone in the industry is suffering (the civil servant can recommend the creation of a task force to study the industry's problems), or because the company's competitors are evading safety regulations (the civil servant can recommend new enforcement procedures), or because environmental constraints are too severe (the civil servant can recommend new liaison arrangements between environment and industry officials). The objective is to so arrange matters that in order for the civil servant to promote his career-enhancing bureaucratic revision, he must simultaneously promote your idea.

This career technique works best the lower down the hierarchy you go. Contrary to popular advice, you should seek out the most junior civil servant with whom it is appropriate to begin discussions. Junior civil ser-

vants are lean and hungry men and women, caught in a no-growth organization with few chances for advancement (some are on the edge of being labeled redundant). They will eagerly grasp at the chance to let their lights shine. Give it to them and you're not likely to be disappointed.

With more senior civil servants near the ends of their careers, another type of inducement is more effective. Here you wish to arrange the "crowning accomplishment" of the civil servant's career. Your proposal should have the ingredients that will give him a chance to mark his retirement by a major contribution to the bureaucracy, a flourish, even a touch of fame. On a very important matter, it would be worth the lobbyist's effort to try to arrange a bureaucratic accomplishment that would attract the notice of the Privy Council Office, if not of the Cabinet itself. And less dramatic accomplishments can be more easily arranged in the form of some tangible monument. The civil servant might approve an industrial grant for the most modern widget plant in the country, for the least polluting plant, for the most automated plant or for the most architecturally impressive plant. The devices are numerous but the approach is the same: give him something to mark the end of his career with meaning. A considerable number of public works projects across the country stand for no other reason.

Do not be so crude as to state the quid pro quo explicitly. Let your cooperation, the bureaucratic implications of your proposal and the promise of career climax speak for themselves.

Some may object that it is imprudent or inconsistent for business lobbyists to encourage career-enhancing bureaucratic activities, the creation of more studies and regulation. Maybe so. But remember that the lobbyist is a petitioner before the bureaucracy. Is it so odd, then, that he finds it advantageous to accommodate the needs of the organization and of the individual bureaucrats who run it?

These recommendations for presenting an effective case before civil servants are based on knowledge of the beast you wish to conquer. By recognizing the way the bureaucracy thinks and works, you can turn these features into points of advantage rather than causes of frustration. If business is to make its influence felt, there is no other way. **\$**

Canadian Business September 1980



SECTION 5



# MEMORANDUM

EXTERNAL AFFAIRS DEPARTMENT

February 11, 1983

TO: R.B. Peterson G.E. Courtnage J.C. Underhill  
D.D. Loughheed G.L. Haight L.C. Sevick  
J.E. Burns R.A.F. Wilkinson D.D. Baldwin  
G.J. Willmon W.D. Evans  
A. Gomm

FROM: G.E. Kruk

## LONG RANGE SOCIAL-POLITICAL OUTLOOK

Attached is a summary of a highly regarded recent book entitled Megatrends by John Naisbitt. The author is a futurist who describes what he regards as the ten most significant social, economic and attitudinal trends transforming not only the USA but the western industrialized world generally. In this regard, you may find his analysis useful background not only for your Feb.14 and 15 Long Range Strategy seminar but, in particular, for the Feb.14 dinner speaker, Marilyn Ferguson, who wrote a similar book, The Aquarian Conspiracy.

Some of the Canadian manifestations of Naisbitt's megatrends might include:

- o the high-tech revolution,
- o the trend towards freer trade,
- o the negative humanist response to certain automations in the workplace, to metrification and nuclear energy,
- o the "small is beautiful" movement; the grass roots movement towards more decentralized, responsive, participatory and even small organization,
- o increased activities by various voluntary associations (i.e. both political activism and social welfare work as government programs are reduced),
- o growing public (especially youth) disrespect for and disinterest in politics, government and authority generally (including corporations),
- o the growing East-West split (in not only economic interests but values and beliefs, i.e. the greater entrepreneurial drive and optimism of westerners),
- o the greater interest by both government and corporations in long range strategic planning.

*Gerry Kruk*  
G.E. KRUK

c.c. H.G. Rainbird W.J. Mann  
W. Patton R.E. Landry  
A. Ferguson P.F. Bartha  
B. Noble P. Stauff  
D. Skilling G.H. Thomson (EPC)  
L.S. Fisher A. O'Connor (ECC)



# MEGATRENDS: THE TEN NEW DIRECTIONS TRANSFORMING OUR LIVES

by: John Naisbitt  
1982

## I. INDUSTRIAL SOCIETY to INFORMATION SOCIETY

"We continue to think we live in an industrial society, we have in fact changed to an economy based on the creation and distribution of information."

### Post-Industrial Era:

- o U.S. is moving away from manufacturing "real products" and services to an economy based on information as the strategic resource, a resource that is both renewable and self-generating.
- o The information society is based on computer technology, microprocessors, communication satellites; it is now possible to exchange information in seconds - greatly accelerating the pace of change.
- o New technology is already being applied to existing industries (robots) and will increasingly give rise to new technological industries (i.e. Silicon Valley in California and Ontario).

### Education Mismatch:

- o It is estimated that by the late 1980s, 75% of jobs will involve computers. The generation graduating today is the first to graduate less "skilled" than its parents. This increasing number of "functionally illiterate" people are ill-educated, ill-equipped and will be ill-employed.
- o To equip people for the information society, educational systems must move away from an emphasis on specialist education which can swiftly become obsolete to a generalist education which will allow people to adapt to rapid change.

## II. FORCED TECHNOLOGY to HIGH TECH/HIGH TOUCH

"We are moving in the dual direction of high tech/high touch, matching each new technology with a compensatory human response."

### High/Touch:

- o This reflects the way we respond to high technology - for every new technological innovation introduced, there must be a counterbalancing human response. Technology must balance with the spiritual and emotional demands of human nature. People do not want to feel dehumanized in their work place etc.
- o The human potential movement (i.e. self-help) is in response to high/tech.



#### Forced Technology:

- o Metrification is an example of innovation imposed on people from above, in this case by government, with little consideration for high/touch and subsequently encountering hostility.
- o Other innovations such as teleconferencing, computer buying, electronic tellers, home computers have to take into consideration the fact that people like to socialize with other people, that many will want to go to work and do their own shopping instead of doing it all from a home computer.

### III. NATIONAL ECONOMY to GLOBAL ECONOMY

"We (i.e. USA) no longer have the luxury of operating within an isolated, self-sufficient, national economic system; we must now acknowledge that we are part of a global economy. We have begun to let go of the idea that the United States is and must remain the world's industrial leader."

#### Sunset to Sunrise Industries:

- o U.S. has lost its #1 position industrially to Japan and much of the traditional manufacturing industry is being increasingly done by Third World Countries, making reindustrialization by the U.S. a mistake. (i.e. trying to recapture the past.)
- o U.S. must not yield to the temptation of propping up its mature, "sunset" industries, many of which are in the state of natural decline (i.e. the auto manufacturers, aid to them would amount to an employment program, nothing more).
- o U.S. must follow the lead of Japan and Germany, and encourage "structural readjustment" of the economy built around the "sunrise" industries, i.e. high/tech, biotechnology and small business in general.

#### Global Trends:

- o No one country will ever dominate the world economy as the U.S. did, following the Second World War. It is becoming a world of interdependent communities.
- o The automobile industry is already showing signs of becoming a globalized industry, Japan has replaced the U.S. as the number one manufacturer and there are assembly plants in 86 other countries. It is speculated that by the end of the century, there will only be 7 or 8 auto manufacturers worldwide.
- o Barter and product sharing will become common. One country will supply the raw material, another will manufacture the components and a third will assemble the product.
- o There will also be a trend towards global investment, the presence of foreign investment and foreign banks will increase.
- o Movement towards global economic integration could have a political consequence, in that it may prove to be the key to world peace.



#### IV. SHORT-TERM to LONG-TERM

"We are restructuring from a society run by short-term considerations and rewards in favour of dealing with things in much longer-term time frames."

##### Short-Term Profits vs. Long-Term Benefits:

- o American managers have shown a short-term orientation in their planning and a preoccupation with "numbers" and profits, (i.e. are this year's profits better than last year's?) as opposed to their Japanese counterparts who will forego short-term gains to ensure a healthy long-term (corporate) future.
- o American business schools are partially responsible for training students to have this preoccupation with short-term profits and "number-crunching". (It is worth noting that Japanese and German managers are not usually products of business schools.)

##### Reconceptualization:

- o Not only has industry fallen victim to short-term planning, so have other major U.S. institutions such as universities, labor unions, political parties. Major issues such as pollution, health care, energy, education, water supply have suffered by being managed from only a short-term perspective.
- o Industry, especially, must apply the "Law of Situation" and ask itself the question, "What business are we really in?" The answer must be a broad long-term strategic vision, a clear image towards which the organization can plan and expand and which will provide a shared sense of direction. (An example of an industry which has done this is Schlumberger, which has reconceptualized its image from simply a well-logging company to a "data collection and processing" industry and therefore moved into the computer industry.)

#### V. CENTRALIZATION to DECENTRALIZATION

"In cities and states, in small organizations and subdivisions, we have rediscovered the ability to act innovatively and to achieve results from the bottom up."

##### Political Decentralization:

- o The power base is shifting from the federal government to state and local governments.
- o There is an increasing feeling among Americans that large centralized agencies have failed to deal with the major social, economic and political problems of the day (from Vietnam to the recession).
- o This trend towards decentralization is actually a reflection of the old traditional American image of individualism - a return to America's "natural condition".
- o As the federal government weakens and the states grow more powerful, a new battle over states' rights could develop.



Economic Regionalism:

- o Rapid growth in small towns and rural areas has been accompanied by a decline in the growth of metropolitan areas.
- o People are increasingly orientated towards the areas they live in and this is reflected in the growing trend towards a bottom-up approach to problems and change rather than expecting a top-down solution from some distant federal government.
- o Trend is also reflected in the business world, with the increase in the numbers of small businesses and corporate decentralizations.

VI. INSTITUTIONAL HELP to SELF-HELP

"We are shifting from institutional help to more self-reliance in all aspects of our lives."

Political Trend:

- o The public had become "passive bystanders" as governments provided more and more services and regulated more areas of our lives.

Economic and Social Trend:

- o There has been a movement away from the large corporations, partly because of the values held by the baby boom generation who could not all be absorbed by traditional job markets and many of whom did not want to be buried in large organizations. They have led the movement towards small business, self-employment and entrepreneurship.
- o Socially, we have seen the rise of "self-help" groups encompassing everything from treatment of drug addiction to how to cope with retirement.

VII. REPRESENTATIVE DEMOCRACY TO PARTICIPATORY DEMOCRACY

"We are discovering that the framework of representative democracy has become obsolete in an era of instantaneously shared information."

Government in the Information Society:

- o Today's electorate is better educated, better-informed and more capable and desirous of participating in the political decision making process than the present system allows.
- o The old party system is declining because the public no longer perceives much difference between them.
- o People are voting less on the federal level while their participation in state and local government is rising as is the use of such instruments of direct government as initiatives, referenda, and recalls.



Participatory Democracy and the Corporation:

- o There is a general movement to make corporations more open and accountable as characterized by the consumer movement, the push for more outside directors, shareholder activism, and the movement for workers' rights and participation in management.

VIII. HIERARCHIES to NETWORKING

"We are giving up our dependence on hierarchial structures in favour of informal networks."

Pyramids to Networks:

- o Pyramids, the traditional hierarchial structure used by both business and governments for organization and management, have failed to cope with society's problems.
- o People will increasingly bypass the bureaucracy and use networking to exchange information in a quicker, more "high touch" and efficient way.
- o Networks are the simple connecting of one person to another to share resources and information in a common cause, it can be as simple as a phone call or as far-reaching as the Women's Movement.
- o Networks foster self-help, encourage decentralization and promote "high-touch".

Corporate Networks:

- o The workforce is increasingly dominated by the baby boom generation who are better-educated, better-informed and more conscious of their rights and therefore, more intolerant of the rigid corporate structure.
- o Networking offers a horizontal link, a way to cut across bureaucratic lines.
- o Trend toward networking in corporations will result in more equality, more informality, better communications and more opportunity for workers to participate in decision-making.
- o Networking will restructure large businesses into smaller, more entrepreneurial and participatory units which will accommodate (i.e. defuse) the over-abundance of well-educated workers who will not be able to move into managerial positions in the traditional ways.
- o There will be an overall trend towards the new type Z company, a hybrid of the traditional American type A and the Japanese type J.

IX. NORTH to SOUTH

"More Americans are living in the South and West, leaving the old industrial cities of the north."

- o The movement to the South and West was originally triggered by its natural resources (especially energy) and was reinforced by its climatic advantages.



- o The decline of the North and East is ultimately a result of the transition from the industrial to information society. The combination of the recession and foreign competition is forcing the older, antiquated industries of the Northeast to close, while at the same time the new "sunrise" industries are locating in south and west.
- o In 1980, the population of the South and West of the US exceeded that of the North and East for the first time.
- o The new so-called megastates are now California, Texas and Florida.
- o These regions are characterized by a frontier spirit, and a belief in free enterprise and entrepreneurship; they are populated by young, affluent, well-educated people.
- o Meanwhile, the Northeast is plagued by a collapsing infrastructure, declining population, bankrupt cities.

X. EITHER/OR to MULTIPLE OPTION

"From a narrow either/or society with a limited range of personal choices, we are exploding into a free-wheeling multiple option society."

- o The trend is away from the narrow, limited post-war period of mass markets and homogenized tastes to a diversified society with decentralized, segmented markets and multiple options in lifestyle, culture and work.
- o The basic building block of society is shifting from the family to the individual.
- o The multiple option society is characterized by the women's movement and increasing numbers of divorce and two-career families.
- o In the work place, jobs are becoming less gender-bound and more flexible (i.e. job-sharing, flex time; working at home etc.)
- o Socially, the trend is toward more acceptance of ethnic, religious and cultural diversity.

O. BLAKENEY

Feb.11, 1983



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